CRESCENT
COLLEGE OF ACCOUNTANCY

CAF-01

Financial Accounting & Reporting - I

Volume-2

Study Text Practice Questions and Topic Wise Exam Questions & Answers Including Solution of Question Bank of ICAP Updated up to March 2022

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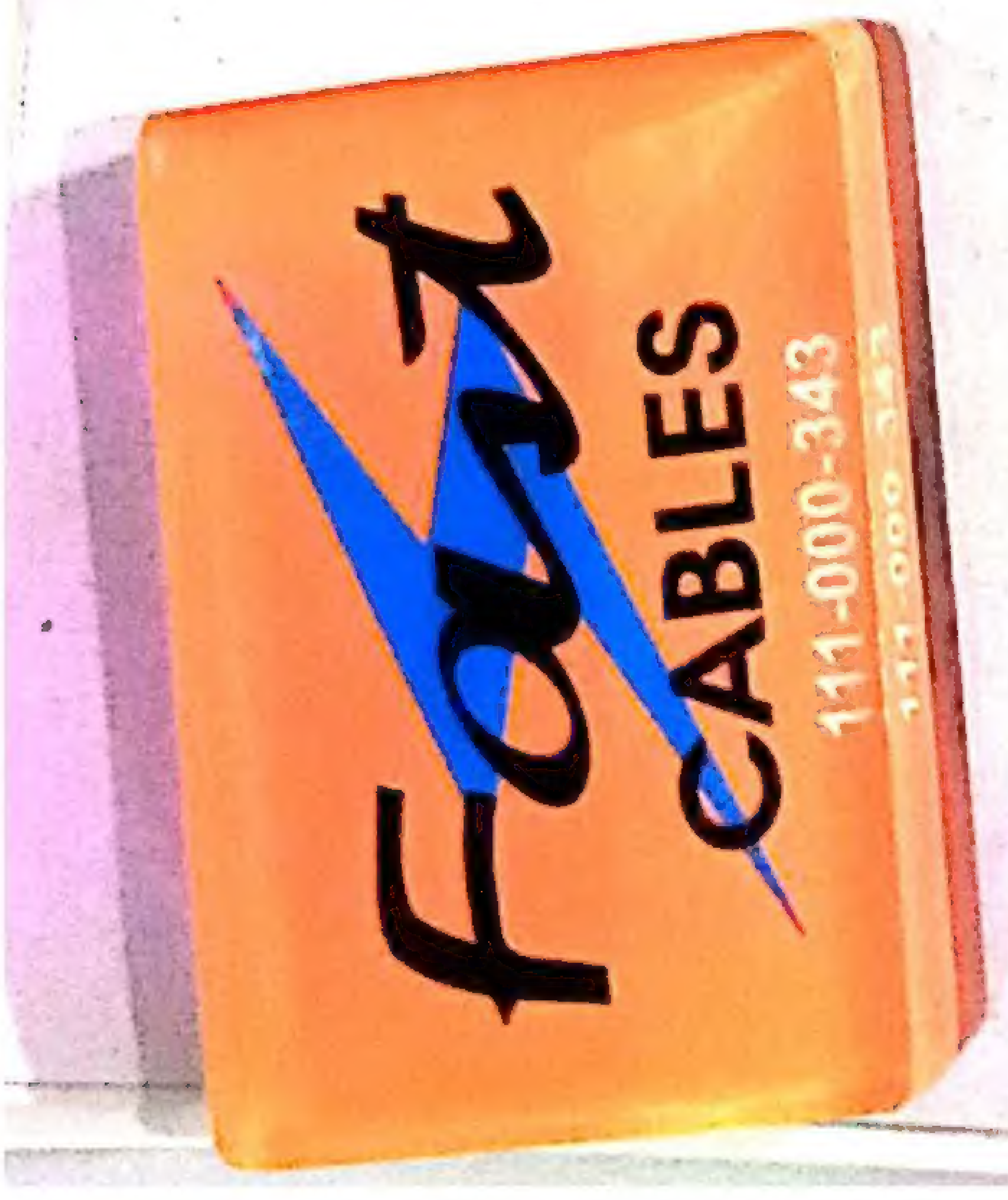
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IAS 33: Earnings Per Share

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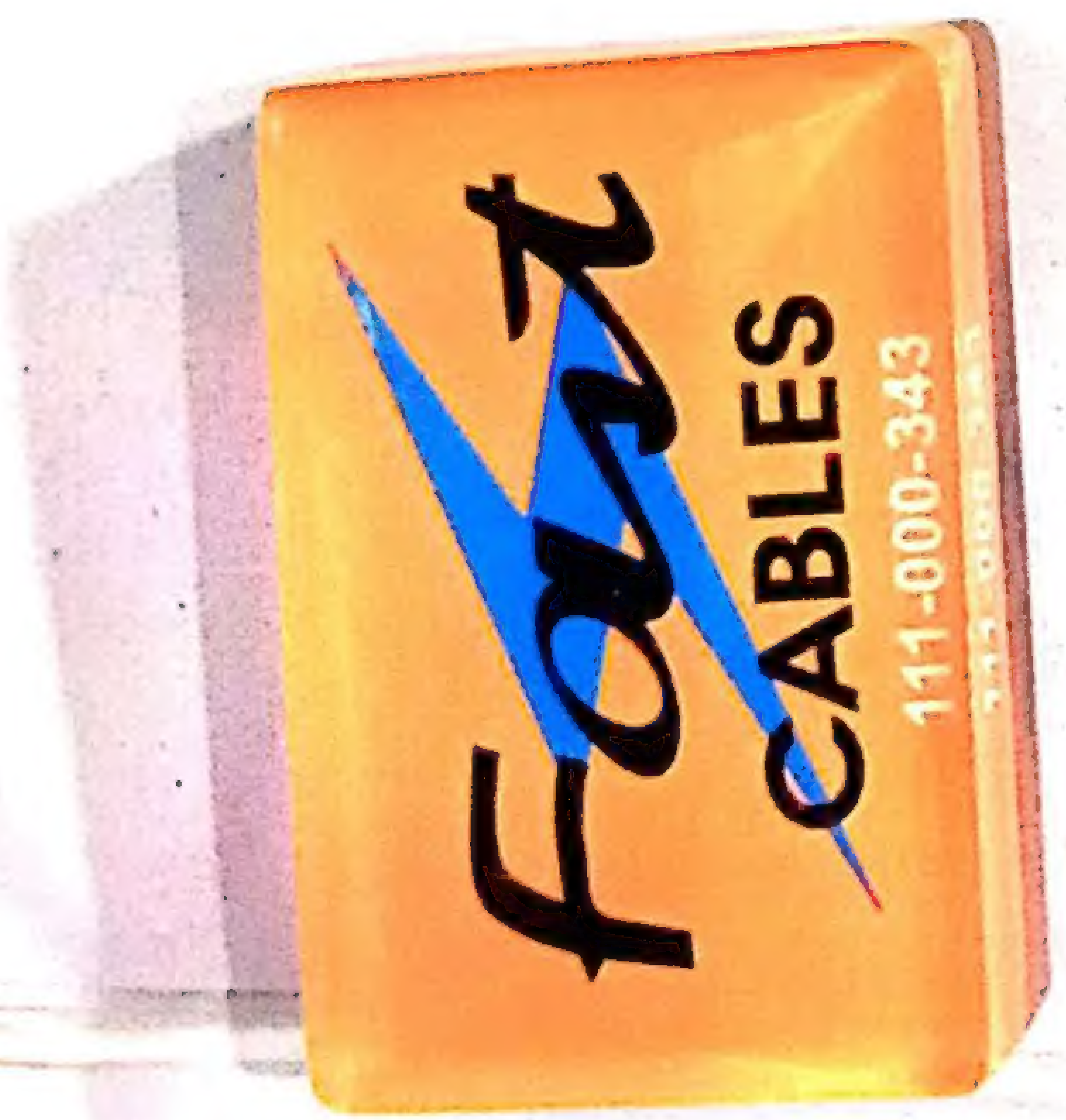
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INTERNATIONAL ACCOUNTING STANDARD 33
EARNINGS PER SHARE

LO1: INTRODUCTION OF EARNINGS PER SHARE

1.1 Earnings per share

Earnings are profits available for equity (ordinary shareholders).

Earnings

- Earnings attributable to ordinary shareholders usually means profit after tax less preference dividend.
- If preference dividend is cumulative, such dividend for the period need to be taken into account irrespective of whether declared or not.
- If preference dividend is non-cumulative, such dividend for the period need to be taken into account only for the amount of dividend declared for the period.
- In case of consolidated financial statements, share of profit of non-controlling interest is also excluded.
- Earnings from discontinued operations are dealt with separately. An EPS from any discontinued operations must also be disclosed, but this does not have to be disclosed on the face of the statement of profit or loss. Instead, it may be shown in a note to the financial statements.

1.2 Usefulness of EPS as financial information

EPS is an important component of determining an entity's P/E ratio i.e. calculated as market value per share divided by earnings per share. P/E ratio is often used by investor in making stock market decisions. The reliable EPS means reliable P/E ratio leading to better and informed decisions by investors.

Investors and their advisers pay close attention to an entity's net profit for the period. However, profit for the period can include large and unusual items and also the results of discontinued operations. This may make it volatile i.e. liable to fluctuate rapidly up and down. Users can then find it difficult to assess trends in the profit figure or to use the current year's profit to predict an entity's performance in future years.

The trend (improvement or deterioration) in an entity's published EPS figure can sometimes be a more reliable indicator of future performance. There are a number of reasons for this.

- The standard version of both basic and diluted EPS is based on profit from continuing operations. This means that the results of discontinued operations (which may distort total profit) are excluded.
- An entity may also choose to present one or more alternative versions of EPS. These normally exclude large or unusual items so that EPS is based on 'normal' recurring earnings.
- EPS measures an entity's performance from the viewpoint of investors. It shows the amount of earnings available to each ordinary shareholder. This means that EPS takes the effect of preference dividends (if any) into account. It also takes share issues into account.
- Diluted EPS can provide an 'early warning' of any changes to an investor's potential return on their investment due to future share issues.

Limitations of EPS

EPS is probably the single most important indicator of an entity's performance. It is a very useful measure when it is used as the starting point for a more detailed analysis of an entity's performance.

However, EPS can have serious limitations:

- Not all entities use the same accounting policies. It may not always be possible to make meaningful comparisons between the EPS of different entities.
- EPS does not take account of inflation, so that growth in EPS over time might be misleading.
- EPS measures an entity's profitability, but this is only part of an entity's overall performance. An entity's cash flow can be just as important as its profit (and more essential to its immediate survival). Changes in the value of assets (holding gains) can also be an important part of performance for some entities.
- Diluted EPS is often described as an 'early warning' to investors that the return on their investment may fall sometime in the future. However, diluted EPS is based on current earnings, not forecast earnings. This means that it may not be a reliable predictor of future EPS.

One of the main problems with EPS can be the way that it is used by investors and others. Users often rely on EPS as the main or only measure of an entity's performance. Management know this and try to make EPS appear as high as possible. They may attempt to manipulate the figure by using 'creative accounting'. They may also make decisions which increase EPS in the short term but which damage the entity in the longer term.

1.3 **Basic and diluted earnings per share**

IAS 33 requires entities to calculate:

- the basic earnings per share on its continuing operations
- the diluted earnings per share on its continuing operations.

Additional requirements apply to earnings relating to discontinued operations.

Diluted EPS and basic EPS will usually differ when there are potential ordinary shares in existence.

Loss

When there is a net loss, total earnings, and therefore, the EPS are negative.

1.4 **Scope of IAS 33**

IAS 33 applies only to **publicly-traded entities** or those which are about to be publicly traded. A publicly-traded entity is an entity whose shares are traded on a stock exchange.

Consolidation

Most publicly-traded entities prepare consolidated financial statements as well as individual financial statements. When this is the case, IAS 33 requires disclosure only of EPS based on the figures in the consolidated financial statements.

1.5 **Basic EPS**

Basic earnings per share is calculated by dividing the profit or loss on continuing operations by the weighted average number of ordinary shares in issue during the period. The calculation of the basic EPS is as follows:

Formula: Basic EPS

$$\frac{\text{Net profit (or loss) attributable to ordinary shareholders during a period}}{\text{weighted average number of shares in issue during the period}}$$

As you can see above IAS 33 gives guidance on:

- the earnings figure that must be used being the net profit (or loss) attributable to ordinary shareholders during a period (commonly referred to as **total earnings**); and
- the number of shares to be used in the calculation being the weighted average number of shares in issue during the period. Changes in share capital during a period must be taken into account in arriving at this number. IAS 33 provides guidance on how to do this.

Example

In the year ended 31 December Year 1, Entity G made profit after tax of Rs 1.5 million.

Entity G had 10 million ordinary shares in issue throughout the year.

Required:

Calculate earnings per share.

Solution

Earnings per share $= \frac{\text{Earnings attributable to ordinary shareholders}}{\text{Number of ordinary shares}}$

$= \frac{1{,}500{,}000}{10{,}000{,}000}$

= 0.15 per share

LO2: TYPES OF SHARES

Ordinary share

An ordinary share is an equity instrument that is subordinate to all other classes of equity instruments.

Preference shares and EPS

Preference shares are not ordinary shares. The interest of preference shareholders in the company is
pre-defined as opposed to that of ordinary shareholders who have a residual interest in the company. Preference shares are excluded from the number of shares while calculating earnings per share.

1. **Redeemable and Irredeemable Preference shares**

   There is a further variation with regard to preference shares; the shares may be:

   a. redeemable; or

   b. non-redeemable

Classification	Presentation	Treatment
Redeemable (it is a liability)	Dividend relating to that share is recognised as a finance cost in the statement of profit or loss.	Such dividend is already deducted from the profit or loss from continuing operations and no further adjustment need be made. (Means it will be ignored in question)
Non-redeemable (it is like equity)	Any dividend relating to that share is recognised in statement of changes in equity.	Such dividend must be deducted from the profit after tax to calculate earnings attributable to ordinary shareholders

Comparison of ordinary shares and preference shares

	Ordinary shares	Irredeemable Preference shares	Redeemable Preference shares
Dividend rate	Variable – higher in a good year, lower in a bad year	Fixed per annum	Fixed per annum
Dividend distribution	Paid only if there are spare funds after the payment of preference dividend	Receives the dividend before ordinary shareholders (therefore lower risk)	Receives the dividend before Irredeemable preference shareholders and ordinary shareholders (therefore lower risk)
Liquidation	The last to be repaid in a liquidation	Repaid before (in preference to) the ordinary shareholders	Repaid before (in preference to) Irredeemable preference shareholders and the ordinary shareholders
Voting rights	Receive the right to vote on major decisions. Each ordinary share would attract one vote.	No right to vote on company decisions.	no right to vote on company decisions
Dividend presentation	In equity	In equity (before ordinary dividend)	In financial charges in income statement
Amount of capital presentation	In equity	In equity	In non-current liabilities

Example-1 (Irredeemable Shares)

In the year ended 31 December Year 1, Entity G made profit after tax of Rs 15 million.

Entity G has 5% Preference Share Capital of Rs.5 million in issue. (The preference shares are Irredeemable).

Entity G had Ordinary Share Capital of Rs. 100 million (Rs. 10 each) in issue throughout the year.

Required

Calculate profit attributable to ordinary shareholders and EPS.

Solution

		Rs (m)
Profit after tax		15
Less: Fixed preference dividends (irredeemable)	(5 x 5%)	(0.25)
Earnings attributable to ordinary shareholders		14.75

Earnings per share $= \frac{\text{Earnings attributable to ordinary shareholders}}{\text{Number of ordinary shares}}$

$= \frac{14,750,000}{10,000,000}$

= 1.475 per share

Example-2 (Redeemable Shares)

In the year ended 31 December Year 1, Entity G made profit after tax from continuing operations of Rs 82 million.

Entity G has 1,000 12% Preference Shares of Rs. 10 each in issue (Preference shares are Redeemable)

Entity G had Ordinary Share Capital of Rs. 50 million (Rs. 10 each) in issue throughout the year.

Required

Calculate profit attributable to ordinary shareholders and EPS.

Solution

	Rs (m)
Profit after tax	82
Less: Fixed preference dividends (irredeemable)	(0)
Earnings attributable to ordinary shareholders	82

As the shares are redeemable the dividend of preference shares is already deducted as finance cost while arriving at profit after tax of Rs.82 million. Thus ignored.

Earnings per share $= \frac{\text{Earnings attributable to ordinary shareholders}}{\text{Number of ordinary shares}}$

$= \frac{82,000,000}{5,000,000}$

= 16.4 per share

Example-3

Ali Company provides you the following information for year 2016:

	Rs. (m)
Profit after Tax	150
Interest on loan	15
Dividend on redeemable preference shares	25
Dividend on irredeemable preference shares	42
Dividend on ordinary Shares	6

Following shares are in issue:

	Mill.
Number of ordinary shares in issue	20
Number of redeemable preference shares in issue	2
Number of irredeemable preference shares in issue	4

Required

Calculate earnings per share.

Solution

	Rs (m)
Profit after tax	150
Less: Fixed preference dividend (irredeemable)	(42)
Earnings attributable to ordinary shareholders	108

Earnings per share $= \dfrac{\text{Earnings attributable to ordinary shareholders}}{\text{Number of ordinary shares}}$

$= \dfrac{108}{20}$

= Rs. 5.4 per share

Note:

- Interest on loan and dividend on redeemable shares has already been deducted from profit after tax of Rs. 150 million.
- Dividend on ordinary shares will be given out of attributable profits for ordinary shares holders.

2. **Cumulative and Non-Cumulative Preference Shares**

Type	Description
Non-Cumulative	This means that if company fails to declare a preference dividend in a period the holders are entitled to receive the missed dividend sometime in future
Cumulative	The dividend must be deducted from profit or loss regardless of whether the dividend has been declared or not.

Example: (Cumulative Preference Shares)

In the year ended 31 December Year 1, Entity G made profit after tax from continuing operations of Rs.3,500,000.

Entity G has Rs.1,000,000 10% preference share capital in issue which is cumulative. (This would entitle investors to receive a dividend of Rs.100,000 (10% of Rs.1,000,000)). Dividend is not declared in the current year for preference share capital.

Entity G had 1 million ordinary shares in issue throughout the year.

Required

Calculate earnings per share.

Solution:

Entity G's basic EPS for the year ended 31 December Year 1 is calculated as follows:

EPS = $\frac{\text{Net profit (or loss) attributable to ordinary shareholders during a period}}{\text{weighted average number of shares in issue during the period}}$

= $\frac{\text{Rs.3,500,000 - Rs.100,000}}{1,000,000}$ = Rs.3.4 per share

Note that the Rs.100,000 deducted above would be deducted irrespective of whether a dividend had been declared or not. However, if these had been non-cumulative then the dividend would have been deducted only in case of declaration by the company.

Example: (Non-Cumulative Preference Shares)

In the year ended 31 December Year 1, Entity Q made profit after tax from continuing operations of Rs.5,000,000.

Entity Q has Rs.2,000,000 10% preference share capital in issue which is non-cumulative. Dividend is not declared in the current year for preference share capital.

Entity G had 3 million ordinary shares in issue throughout the year.

Required

Calculate earnings per share.

Solution:

Entity G's basic EPS for the year ended 31 December Year 1 is calculated as follows:

EPS = $\frac{\text{Net profit (or loss) attributable to ordinary shareholders during a period}}{\text{weighted average number of shares in issue during the period}}$

= $\frac{\text{Rs.5,000,000}}{3,000,000}$ = Rs.1.67 per share

Example

A company has 10,000 ordinary shares and 10,000 10% Rs. 2 each preference shares in issue throughout 20X2. The profit after tax was Rs. 100,000 in 20X2.

Required:

Calculate the basic earnings in 20X2, assuming that the preference shares are:

A) Non-cumulative and non-redeemable (i.e. equity) and the dividend is declared.

B) Non-cumulative and non-redeemable (i.e. equity) and the dividend is not declared.

C) Cumulative and redeemable (i.e. liability) and the dividend is declared.

D) Cumulative and redeemable (i.e. liability) and the dividend is not declared.

Solution-A: preference shares (equity) and declared dividends

		Rs.
Profit after tax		100,000
Less: Preference dividends on irredeemable shares	(10,000 x 2 x 10%)	(2,000)
Earnings attributable to ordinary shareholders		98,000

Comment: Preference dividends are deducted from retained earnings in the statement of changes in equity and must therefore be deducted from the profit or loss for the period (as per the statement of comprehensive income) to determine how much profit belongs to the ordinary shareholders.

Solution-B: preference shares (equity) and dividends not declared

	Rs.
Profit after tax	100,000
Less: Preference dividends on irredeemable shares	(0)
Earnings attributable to ordinary shareholders	100,000

Comment: If there is no obligation to pay the dividend (i.e. the preference dividend is both non-cumulative and not declared) the dividend will not be recognised in the financial statements at all. No adjustment is made to the profit for the period, all the profit belongs to the ordinary shareholders.

Solution-C: preference shares (liability) and declared dividends

	Rs.
Profit after tax	100,000
Less: Preference dividends on irredeemable shares	(0)
Earnings attributable to ordinary shareholders	100,000

Comment: Preference shares that are cumulative and redeemable are treated as liabilities. The dividends on these preference shares are therefore recognised as interest. This dividend has therefore already been deducted in calculating the profit for the period.

Solution-D: preference shares (liability) and dividends not declared

	Rs.
Profit after tax	100,000
Less: Preference dividends on irredeemable shares	(0)
Earnings attributable to ordinary shareholders	100,000

Comment: Preference shares that are cumulative and redeemable are treated as liabilities. The dividends on these preference shares are therefore recognised as interest, irrespective of whether or not the dividend has been formally declared. This dividend should therefore already been deducted in calculating the profit for the period.

Weighted average number of shares

The number of shares to be used in the calculation being the weighted average number of shares in issue during the period. Changes in share capital during a period must be taken into account in arriving at this number. IAS 33 provides guidance on how to do this.

There are different ways in which the number of shares may change:

- Issue of shares at full market price
- Issue of shares for no consideration (Bonus issue)
- Right issue
- Share split (where one share is split into several others)
- Share consolidation (where two or more shares are consolidated into one)

LO3: ISSUE OF SHARES AT FULL MARKET PRICE

The consideration received is available to boost earnings. Therefore, the shares are included from the date of issue to ensure consistency between the numerator (top) and denominator (bottom) of the EPS calculation.

The starting point for the weighted average number of shares is the number of shares in issue at the beginning of the period. This is then adjusted for any shares issued during the period and a time weighting factor must then be applied to each figure.

There is no adjustment to comparatives resulting from an issue at full price.

Question-1

Gilani & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

Total earnings in the year ending 31 December 2016 were Rs. 80,000.

Required

Calculate the Basic Earnings per share for the year ended 31 December 2016.

Answer-1

$$\text{Earnings per share} = \frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$$

2016

$$\text{EPS} = \frac{80{,}000}{10{,}000}$$

= 8 per share

(W-1) Weighted average number of shares during the period

Date	Number of shares	Factor	Weighted average number
1 January to 31 December	10,000	x 12/12	10,000

Question-2

Kamran & Co., a listed company, has a financial year ending 31 March.

On 1 April 2015, there were 15,000 shares in issue.

Total earnings in the year ending 31 March 2016 were Rs. 200,000.

Required

Calculate the Basic Earnings per share for the year ended 31 March 2016.

Answer-2

$$\text{Earnings per share} = \frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$$

2016

$$\text{EPS} = \frac{200{,}000}{15{,}000}$$

= 13.33 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
1 April to 31 March	15,000	x 12/12	15,000

Question-3 (New issue at start of year full market price)

Gohan & Co., a listed company, has a financial year ending 30 June.

On 1 July 2015, there were 56,000 shares in issue.

On 1 July 2015, Gohan & Co. issued 45,000 new shares at full market price.

Total earnings in the year ending 30 June 2016 were Rs. 1,500,000.

Total earnings in the year ending 30 June 2015 were Rs. 900,000.

Required

Calculate the Basic Earnings per share for the year ended 30 June 2016 & 2015.

Answer-3

$$\text{Earnings per share} = \frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$$

2016

$$EPS = \frac{1,500,000}{101,000}$$

= 14.85 per share

2015

$$EPS = \frac{900,000}{56,000}$$

= 16.07 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 July 2015	56,000		
New Shares Issued on 1 July 2015	45,000		
1 July to 30 June	101,000	x 12/12	101,000

Question-4 (New issue at mid of year at full market price)

Goten & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 April 2016, Goten & Co. issued 10,000 new shares at full market price.

Total earnings in the year ending 31 December 2016 were Rs. 140,000.

Total earnings in the year ending 31 December 2015 were Rs. 80,000.

Required

Calculate the Basic Earnings per share for the year ended 31 December 2016 & 2015.

Answer-4

$$\text{Earnings per share} = \frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$$

2016

$$EPS = \frac{140{,}000}{17{,}500}$$

= Rs. 8 per share

2015

$$EPS = \frac{80{,}000}{10{,}000}$$

= Rs. 8 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	x 3/12	2,500
New Shares Issued on 1 April	10,000		
	20,000	x 9/12	15,000
			17,500

Question-5 (New issue at mid of year at full market price)

Gojeeta & Co., a listed company, has a financial year ending 30 June.

On 1 July 2015, there were 28,000 shares in issue.

On 1 April 2016, Gojeeta & Co. issued 6,000 new shares at full market price.

Total earnings in the year ending 30.06.16 were Rs.150,000.

Total earnings in the year ending 30.06.15 were Rs.75,000.

Required:

Calculate the Basic Earnings per share for the year ended 30 June 2016 & 2015.

Answer-5

$$\text{Earnings per share} = \frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$$

2016

$$EPS = \frac{150{,}000}{29{,}500}$$

= Rs. 5.1 per share

2015

$$EPS = \frac{75{,}000}{28{,}000}$$

= Rs. 2.7 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 July	28,000	x 9/12	21,000
New issued shares (1 April to 30 June)	6,000		
	34,000	x 3/12	85,00
			29,500

Question-6 (New issue at mid of year at full market price twice)

Vegeta & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 March 2016, Vegeta & Co. issued 2,000 new shares at full market price.

On 1 October 2016, Vegeta & Co. issued 5,000 further new shares at full market price.

Total earnings in the year ending 31 December 2016 were Rs. 200,000.

Total earnings in the year ending 31 December 2015 were Rs. 80,000.

Required

Calculate the Basic Earnings per share for the year ended 31 December 2016 & 2015.

Answer-6

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

2016

EPS = $\frac{200,000}{12,917}$

= Rs. 15.5 per share

2015

EPS = $\frac{80,000}{10,000}$

= Rs. 8 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	x 2/12	1,667
New Shares Issued on 1 March	2,000		
	12,000	x 7/12	7,000
New Shares Issued on 1 October	5,000		
	17,000	x 3/12	4,250
			12,917

Question-7(New issue at mid of year at full market price twice)

Trunks & Co., a listed company, has a financial year ending 30 September.

On 1 October 2015, there were 47,000 shares in issue.

On 1 March 2016, Trunks & Co. issued 28,000 new shares at full market price.

On 1 July 2016, Trunks & Co. issued 5,000 further new shares at full market price.

Total earnings in the year ending 30 September 2016 were Rs. 2,500,000.

Total earnings in the year ending 30 September 2015 were Rs. 1,500,000.

Required

Calculate the Basic Earnings per share for the year ended 30 September 2016 & 2015.

Answer-7

Earnings per share = $\dfrac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

2016

EPS = $\dfrac{2,500,000}{64,583}$

= Rs. 38.7 per share

2015

EPS = $\dfrac{1,500,000}{47,000}$

= Rs. 31.9 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 October	47,000	x 5/12	19,583
New issued shares on 1 March	28,000		
	75,000	x 4/12	25,000
New issued shares on 1 July	5,000		
	80,000	x 3/12	20,000
			64,583

LO4: BONUS ISSUE OF SHARES

A bonus issue of shares (also called a "scrip issue" or a "capitalisation issue" or "stock dividend") is an issue of new shares to existing shareholders, in proportion to their existing shareholding, for no consideration. In other words, the new shares are issued 'free of charge' to existing shareholders.

No cash is raised from a bonus issue, therefore is no earnings boost from the issue. Bonus issued shares are treated as if they have always been in issue.

The new number of shares (i.e. the number of shares after the bonus issue) can be found by multiplying the number of shares before the bonus issue by the bonus issue fraction.

The bonus issue fraction is

Formula: Bonus issue fraction

$$\frac{\text{Number of shares in holding after the bonus issue}}{\text{Number of shares in holding before the bonus issue}}$$

Example: Bonus fraction

A company has 4,000,000 shares in issue.

It made a 1 for 4 bonus issue (25%)

Required

Calculate the number of shares in issue after the bonus issue.

Solution:

Number of shares in issue after the bonus issue: 4,000,000 x 5/4 = 5,000,000

(W-1)

	Bonus Issue
Before	4
New	1
After	5

Note: Comparatives are restated in respect of bonus issue.

Question-8 (Bonus issue at mid of year)

Nobita & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 March 2016, Nobita & Co. made a bonus issue to existing shareholders of 1 new share for every 2 shares held.

Total earnings in the year ending 31 December 2016 were Rs. 70,000.

Total earnings in the year ending 31 December 2015 were Rs. 70,000.

Required

1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-8

$$\text{Earnings per share} = \frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$$

1) **2015**

EPS $= \frac{70{,}000}{10{,}000}$

= Rs. 7 per share

2) **2016**

EPS $= \frac{70{,}000}{15{,}000}$

= Rs. 4.67 per share

2015 (Restated)

EPS = 7 x Reciprocal of Bonus Fraction

= 7 x 2/3

= Rs. 4.67 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	x 2/12 x 3/2	2,500
Bonus shares issued on 1 March 2016 (10,000/2 x 1)	5,000		
	15,000	x 10/12	12,500
			15,000

(W-2)

	Bonus Issue
Before	2
New	1
After	3

Question-9 (Bonus issue at mid of year)

Gotrunks & Co., a listed company, has a financial year ending 30 November.

On 1 December 2015, there were 97,000 shares in issue.

On 1 March 2016, Gotrunks & Co. made a bonus issue to existing shareholders of 7 new share for every 12 shares held.

Total earnings in the year ending 30 November 2016 were Rs. 2,570,000.

Total earnings in the year ending 30 November 2015 were Rs. 2,570,000.

Required

1) Calculate the Basic Earnings per share for the year ended 30 November 2015.
2) Calculate the Basic Earnings per share for the year ended 30 November 2016 along with comparatives.

Answer-9

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015

EPS = $\frac{2,570,000}{97,000}$

= Rs. 26.49 per share

2) 2016

EPS = $\frac{2,570,000}{153,583}$

= Rs. 16.7 per share

2015 (Restated)

EPS = 26.49 x Reciprocal of Bonus Fraction

= 26.49 x 12/19

= Rs. 16.7 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 December	97,000	x 3/12 x 19/12	38,396
Bonus shares issued on 1 March 2016 (97,000/12 x 7)	56,583		
1 March to 30 November	153,583	x 9/12	115,187
			153,583

(W-2)

	Bonus Issue
Before	12
New	7
After	19

Question-10 (Bonus issue at mid of year)

Mian Shaoib & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 July 2016, Mian Shaoib & Co. made a bonus issue to existing shareholders of 1 new share for every 2 shares held.

Total earnings in the year ending 31 December 2016 were Rs. 50,000.

Total earnings in the year ending 31 December 2015 were Rs. 50,000.

Required

1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-10

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015

EPS = $\frac{50,000}{10,000}$

= Rs. 5 per share

2) 2016

EPS = $\frac{50,000}{15,000}$

= Rs. 3.33 per share

2015 (Restated)

EPS = 5 x Reciprocal of Bonus Fraction

= 5 x 2/3

= Rs. 3.33 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	x 6/12 x 3/2	7,500
Bonus shares issued on 1 July 2016 (10,000/2 x 1)	5,000		
	15,000	x 6/12	7,500
			15,000

(W-2)

	Bonus Issue
Before	2
New	1
After	3

Question-11 (Bonus issue at mid of year)

Daud Hassan & Co., a listed company, has a financial year ending 31 July.

On 1 August 2015, there were 1,600 shares in issue.

On 1 January 2016, Daud Hassan & Co. made a bonus issue to existing shareholders of 17 new share for every 21 shares held.

Total earnings in the year ending 31 July 2016 were Rs. 254,800.

Total earnings in the year ending 31 July 2015 were Rs. 151,200.

Required

1) Calculate the Basic Earnings per share for the year ended 31 July 2015.
2) Calculate the Basic Earnings per share for the year ended 31 July 2016 along with comparatives.

Answer-11

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) **2015**

EPS = $\frac{151,200}{1,600}$

= Rs. 94.5 per share

2) **2016**

EPS = $\frac{254,800}{2,895}$

= Rs. 88.01 per share

2015 (Restated)

EPS = 94.5 x Reciprocal of Bonus Fraction

= 94.5 x 21/38

= Rs. 52.22 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 August	1,600	x 5/12 x 38/21	1206
Bonus shares issued on 1 January 2016 (1,600/21 x 17)	1295		
	2,895	x 7/12	1,689
			2,895

(W-2)

	Bonus Issue
Before	21
New	17
After	38

Question-12 (Bonus issue at mid of year twice)

Rauf & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 March 2016, Rauf & Co. made a bonus issue to existing shareholders of 1 new share for every 2 shares held.

On 1 October 2016, Ali & Co. made a bonus issue to existing shareholders of 2 new shares for every 5 shares held.

Total earnings in the year ending 31 December 2016 were Rs. 50,000.

Total earnings in the year ending 31 December 2015 were Rs. 50,000.

Required

1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-12

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015

EPS = $\frac{50{,}000}{10{,}000}$

= Rs. 5 per share

2) 2016

EPS = $\frac{50{,}000}{21{,}000}$

= Rs. 2.38 per share

2015 (Restated)

EPS = 5 x Reciprocal of Bonus Fractions

= 5 x 2/3 x 5/7

= Rs. 2.38 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	x 2/12 x 3/2 x 7/5	3,500
Bonus shares issued on 1 March (10,000/2 x 1)	5,000		
	15,000	x 7/12 x 7/5	12,250
Bonus shares issued on 1 October (15,000/5 x 2)	6,000		
	21,000	x 3/12	5,250
			21,000

(W-2)

	Bonus Issue	Bonus issue
Before	2	5
New	1	2
After	3	7

Question-13 (Bonus issue at mid of year twice)

Doremon & Co., a listed company, has a financial year ending 31 May.

On 1 June 2015, there were 987,500 shares in issue.

On 1 December 2015, Doremon & Co. made a bonus issue to existing shareholders of 6 new share for every 8 shares held.

On 1 March 2016, Doremon & Co. made a bonus issue to existing shareholders of 1 new shares for every 9 shares held.

Total earnings in the year ending 31 May 2016 were Rs. 7,560,000.

Total earnings in the year ending 31 May 2015 were Rs. 5,856,000.

Required

1) Calculate the Basic Earnings per share for the year ended 31 May 2015.
2) Calculate the Basic Earnings per share for the year ended 31 May 2016 along with comparatives.

Answer-13

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015

EPS = $\frac{5,856,000}{987,500}$

= Rs. 5.93 per share

2) 2016

EPS = $\frac{7,560,000}{1,920,139}$

= Rs. 3.93 per share

2015 (Restated)

EPS = 5.93 x Reciprocal of Bonus Fractions

= 5.93 x 8/14 x 9/10

= Rs. 3.05 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 June	987,500	x 6/12 x 14/8 x 10/9	960,069
Bonus shares issued on 1 December (987,500/8 x 6)	740,625		
	1,728,125	x 3/12 x 10/9	480,035
Bonus shares issued on 1 March (1,728,125/9 x 1)	192,014		
	1,920,139	x 3/12	480,035
			1,920,139

(W-2)

	Bonus Issue	Bonus Issue
Before	8	9
New	6	1
After	14	10

Question-14 (New shares issue at full market price + Bonus issue at mid of year)

Naruto & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 April 2016, Naruto & Co. issued 2,000 new shares at full market price.

On 1 September 2016, Naruto & Co. made a bonus issue to existing shareholders of 3 new shares for every 8 shares held.

Total earnings in the year ending 31 December 2016 were Rs. 100,000.

Total earnings in the year ending 31 December 2015 were Rs. 100,000.

Required

1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-14

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) **2015**
EPS = $\frac{100,000}{10,000}$
= Rs. 10 per share

2) **2016**
EPS = $\frac{100,000}{15,813}$
= Rs. 6.3 per share

2015 (Restated)
EPS = 10 x Reciprocal of Bonus Fractions
= 10 x 8/11
= Rs. 7.3 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	x 3/12 x 11/8	3,438
New issued shares on 1 April 2016	2,000		
	12,000	x 5/12 x 11/8	6,875
Bonus shares issued on 1 September (12,000/8 x 3)	4,500		
	16,500	x 4/12	5,500
			15,813

(W-2)

	Bonus Issue
Before	8
New	3
After	11

Question-15 (New shares issue at full market price + Bonus issue at mid of year)

Sasku & Co., a listed company, has a financial year ending 31October.

On 1 November 2015, there were 254,865 shares in issue.

On 1 March 2016, Sasku & Co. issued 23,296 new shares at full market price.

On 1 September 2016, Sasku & Co. made a bonus issue to existing shareholders of 13 new shares for every 31 shares held.

Total earnings in the year ending 31 October 2016 were Rs. 29,605,000.

Total earnings in the year ending 31 October 2015 were Rs. 10,568,000.

Required

1) Calculate the Basic Earnings per share for the year ended 31 October 2015.
2) Calculate the Basic Earnings per share for the year ended 31 October 2016 along with comparatives.

Answer-15

Earnings per share = $\dfrac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) **2015**

EPS = $\dfrac{10,568,000}{254,865}$

= Rs. 41.5 per share.

2) **2016**

EPS = $\dfrac{29,605,000}{383,788}$

= Rs. 77.14 per share

2015 (Restated)

EPS = 41.5 x Reciprocal of Bonus Fractions

= 41.5 x 31/44

= Rs. 29.24 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 November	254,865	x 4/12 x 44/31	120,581
New issued shares on 1 March 2016	23,296		
	278,161	x 6/12 x 44/31	197,405
Bonus shares issued on 1 September (278,161/31 x 13)	116,648		
	394,809	x 2/12	65,802
			383,788

(W-2)

Before
New
After

Question-16 (Bonus issue + new shares issue at full market price at ...
Kakashi & Co., a listed company, has a financial year ending 31 December.
On 1 January 2016, there were 10,000 shares in issue.
On 1 February 2016, Kakashi & Co. made a bonus issue to existing shareholders of 3 new shares for every 4 shares held.
On 1 August 2016, Kakashi & Co. issued 3,000 new shares at full market price.
Total earnings in the year ending 31 December 2016 were Rs. 300,000.
Total earnings in the year ending 31 December 2015 were Rs. 170,000.

Required
1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-16

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) **2015**
EPS = $\frac{170,000}{10,000}$
= Rs. 17 per share

2) **2016**
EPS = $\frac{300,000}{18,750}$
= Rs. 16 per share

2015 (Restated)
EPS = 17 x Reciprocal of Bonus Fractions
= 17 x 4/7
= Rs. 9.7 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	x 1/12 x 7/4	1,458
Bonus shares issued on 1 February (10,000/4 x 3)	7,500		
	17,500	x 6/12	8,750
New shares issued on 1 August 2016	3,000		
	20,500	x 5/12	8,542
			18,750

(W-2)

	Bonus Issue
Before	4
New	3
After	7

Question-17 (Bonus issue + new shares issue at full market price at mid of year)

Bashar & Co., a listed company, has a financial year ending 31 January.

On 1 February 2015, there were 158,990 shares in issue.

On 1 April 2015, Bashar & Co. made a bonus issue to existing shareholders of 7 new shares for every 19 shares held.

On 1 September 2015, Bashar & Co. issued 19,450 new shares at full market price.

Total earnings in the year ending 31 January 2016 were Rs. 9,560,650.

Total earnings in the year ending 31 January 2015 were Rs. 5,461,165.

Required

1) Calculate the Basic Earnings per share for the year ended 31 January 2015.
2) Calculate the Basic Earnings per share for the year ended 31 January 2016 along with comparatives.

Answer-17

Earnings per share = $\dfrac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) **2015**

EPS = $\dfrac{5,461,165}{158,990}$

= Rs. 34.35 per share

2) **2016**

EPS = $\dfrac{9,560,650}{225,669}$

= Rs. 42.37 per share

2015 (Restated)

EPS = 34.35 x Reciprocal of Bonus Fractions

= 34.35 x 19/26

= Rs. 25.10 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 February	158,990	x 2/12 x 26/19	36,261
Bonus shares issued on 1 April (158,990/19 x 7)	58,575		
	217,565	x 5/12	90,652
New shares issued on 1 September 2015	19,450		
	237,015	x 5/12	98,756
			225,669

(W-2)

	Bonus Issue
Before	19
New	7
After	26

LO5: RIGHT ISSUE OF SHARES

A right issue of shares is an issue of new shares for cash, where the new shares are offered initially to current shareholders in proportion to their existing shareholdings.

The issue price of the new shares in a rights issue is always below the current market price for the shares already in issue. This means that they include a bonus element which must be taken into account in the calculation of the weighted average number of shares. Also note that any comparatives must be restated by multiplying them by the inverse of the rights issue bonus fraction.

The rights issue bonus fraction is calculated as follows:

Formula: Rights issue bonus issue fraction

$$\frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$$

The **actual cum-rights price** is the market price of the shares before the rights issue.

The **theoretical ex-rights price** is the price that the shares ought to be, in theory, after the rights issue. It is a weighted average price of the shares before the rights issue and the new shares in the rights issue.

The calculation of the theoretical ex rights price looks a little complicated at first but it is always done this way. This is demonstrated in the following example.

Question-18 (Right issue at mid of year)

Momin & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 November 2016, Momin & Co. made a Rights issue to existing shareholders of 3 new shares for every 5 shares held at the price of Rs. 4. The market price of shares just before the rights issue was Rs. 10.

Total earnings in the year ending 31 December 2016 were Rs. 150,000.

Total earnings in the year ending 31 December 2015 were Rs. 80,000.

Required

1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-18

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) **2015**

EPS = $\frac{80,000}{10,000}$

= Rs. 8 per share

2) 2016

EPS = 150,000 / 13,420

= Rs. 11.18 per share

2015 (Restated)

EPS = 8 x Reciprocal of Bonus Fraction

= 8 x 7.75/10

= Rs. 6.2 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	x 10/12 x 10/7.75	10,753
Right shares issued on 1 November 2016 (10,000/5 x 3)	6,000		
	16,000	x 2/12	2,667
			13,420

(W-2) Right issue bonus Fraction

= Actual cum rights price / Theoretical ex rights price

= 10/7.75

Theoretical ex-right price

		Rs.
Before	(5 x Rs.10)	50
New	(3 x Rs. 4)	12
After	(8 x Rs 7.75 (bal.))	62

Question-19 (Right issue at mid of year)

Rudaba & Co., a listed company, has a financial year ending 29 February.

On 1 March 2015, there were 2,658,550 shares in issue.

On 1 December 2015, Rudaba & Co. made a Rights issue to existing shareholders of 13 new shares for every 63 shares held at the price of Rs. 25. The market price of shares just before the rights issue was Rs. 64.

Total earnings in the year ending 29 February 2016 were Rs. 8,545,000.

Total earnings in the year ending 28 February 2015 were Rs. 5,561,000.

Required

1) Calculate the Basic Earnings per share for the year ended 28 February 2015.
2) Calculate the Basic Earnings per share for the year ended 29 February 2016 along with comparatives.

Answer-19

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) **2015**

EPS = $\frac{5,561,000}{2,658,550}$

= Rs. 2.09 per share

2) **2016**

EPS = $\frac{8,545,000}{3,028,066}$

= Rs. 2.82 per share

2015 (Restated)

EPS = 2.09 x Reciprocal of Right issue bonus Fraction

= 2.09 x 57.32/64

= Rs. 1.87 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 March	2,658,550	x 9/12 x 64/57.32	2,226,281
Right shares issued on 1 December (2,658,550/63 x 13)	548,590		
	3,207,140	x 3/12	801,785
			3,028,066

(W-2) Right issue bonus Fraction

= $\frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$

= 64/57.32

Theoretical ex-right price		Rs.
Before	(63 x Rs.64)	4,032
New	(13 x Rs. 25)	325
After	(76 x 57.32 (bal))	4,357

Question-20 (Right issue at mid of year twice)

Boland & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 May 2016, Boland & Co. made a Rights issue to existing shareholders of 2 new shares for every 3 shares held at the price of Rs. 7. The market price of shares immediately before the rights issue was Rs. 10.

On 1 August 2016, Boland & Co. made a Rights issue to existing shareholders of 3 new shares for every 5 shares held at the price of Rs. 8. The market price of shares just before the rights issue was Rs. 12.

Total earnings in the year ending 31 December 2016 were Rs. 200,000.

Total earnings in the year ending 31 December 2015 were Rs. 120,000.

Required

1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-20

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015

EPS = $\frac{120,000}{10,000}$

= Rs. 12 per share

2) 2016

EPS = $\frac{200,000}{20,202}$

= Rs. 9.9 per share

2015 (Restated)

EPS = 12 x Reciprocal Right Issue of Bonus Fraction

= 12 x 8.8/10 x 10.5/12

= Rs. 9.24 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	x 4/12 x 10/8.8 x 12/10.5	4,329
Right shares issued on 1 May 2016 (10,000/3 x 2)	6,667		
	16,667	x 3/12 x 12/10.5	4,762
Right shares issued on 1 August 2016 (16,667/5 x 3)	10,000		
	26,667	x 5/12	11,111
			20,202

(W-2) Right issue bonus Fraction (Issued on 1 May)

= $\frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$

= 10/8.8

Theoretical ex-right price

		Rs.
Before	(3 x Rs.10)	30
New	(2 x Rs. 7)	14
After	(5 x Rs 8.8 (bal))	44

(W-3) Right issue bonus Fraction (Issued on 1 August)

= $\frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$

= 12/10.5

Theoretical ex-rights price		Rs.
Before	(5 x Rs.12)	60
New	(3 x Rs. 8)	24
After	(8 x Rs 10.5 (bal))	84

Question-21 (Right issue at mid of year twice)

Dragon & Co., a listed company, has a financial year ending 30 September.

On 1 October 2015, there were 157,000 shares in issue.

On 1 March 2016, Dragon & Co. made a Rights issue to existing shareholders of 16 new shares for every 33 shares held at the price of Rs. 14. The market price of shares immediately before the rights issue was Rs. 25.

On 1 August 2016, Dragon & Co. made a Rights issue to existing shareholders of 8 new shares for every 15 shares held at the price of Rs. 18. The market price of shares just before the rights issue was Rs. 40.

Total earnings in the year ending 30 September 2016 were Rs. 1,589,564.

Total earnings in the year ending 30 September 2015 were Rs. 895,644.

Required

1) Calculate the Basic Earnings per share for the year ended 30 September 2015.
2) Calculate the Basic Earnings per share for the year ended 30 September 2016 along with comparatives.

Answer-21

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015

EPS = $\frac{895,644}{157,000}$

= Rs. 5.7 per share

2) 2016

EPS = $\frac{1,589,564}{274,128}$

= Rs. 5.8 per share

2015 (Restated)

EPS = 5.7 x Reciprocal Right issue of bonus Fraction

= 5.7 x 21.41/25 x 32.35/40

= Rs. 3.95 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 October	137,000	x 5/12 x 25/21.41 x 40/32.35	91,110
Right shares issued on 1 March 2016 (137,000/33 x 16)	70,121		
	233,121	x 5/12 x 40/32.35	120,101
Right shares issued on 1 August 2016 (233,121/15 x 8)	124,331		
	357,452	x 2/12	30,373
			241,128

(W-2) Right issue bonus Fraction (Issued on 1 March)

= Actual cum rights price / Theoretical ex rights price

= 25/21.41

<u>Theoretical ex-rights price</u>

		Rs.
Before	(33 x Rs.25)	825
New	(16 x Rs. 14)	224
After	(49 x Rs 21.41(bal))	1049

(W-3) Right issue bonus Fraction (Issued on 1 August)

= Actual cum rights price / Theoretical ex rights price

= 40/32.35

<u>Theoretical ex-rights price</u>

		Rs.
Before	(15 x Rs.40)	600
New	(8 x Rs. 18)	144
After	(23 x Rs 32.32 (bal))	744

<u>Question-22</u> (New issue at full market price + Right issue at mid of the year)

Ball & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 May 2016, Ball & Co. issued 5,000 new shares at full market price.

On 1 November 2016, Ball & Co. made a Rights issue to existing shareholders of 1 new share for every 3 shares held at the price of Rs. 4. The market price of shares immediately before the rights issue was Rs.7.

Total earnings in the year ending 31 December 2016 were Rs. 150,000.

Total earnings in the year ending 31 December 2015 were Rs. 160,000.

Required

1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-22

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) **2015**
EPS = $\frac{160,000}{10,000}$
= Rs. 16 per share

2) **2016**
EPS = $\frac{150,000}{15,466}$
= Rs. 9.69 per share

2015 (Restated)
EPS = 16 x Reciprocal of Right issue bonus Fraction
= 16 x 6.25/7
= Rs. 14.3 per share

(W-1) Weighted average number of shares during 2016

Date	**Number of shares**	**Factor**	**Weighted average number**
Opening Shares on 1 January	10,000	x 4/12 x 7/6.25	3,733
New shares issued on 1 May 2016	5,000		
	15,000	x 6/12 x 7/6.25	8,400
Rights share issue on 1 November 2016 (15,000/3 x 1)	5,000		
	20,000	x 2/12	3,333
			15,466

(W-2) Right issue bonus Fraction (Issued on 1 November)

= $\frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$

= 7/6.25

Theoretical ex-rights price		Rs.
Before	(3 x Rs.7)	21
New	(1 x Rs. 4)	4
After	(4 x Rs 6.25 (bal))	25

Question-23 (New issue at full market price + Right issue at mid of the year)

Super & Co., a listed company, has a financial year ending 30 April.

On 1 May 2015, there were 29,564 shares in issue.

On 1 July 2015, Super & Co. issued 7,820 new shares at full market price.

On 1 January 2016, Super & Co. made a Rights issue to existing shareholders of 7 new share for every 29 shares held at the price of Rs. 15. The market price of shares immediately before the rights issue was Rs.68.

Total earnings in the year ending 30 April 2016 were Rs. 7,950,000.

Total earnings in the year ending 30 April 2015 were Rs. 1,268,000.

Required

1) Calculate the Basic Earnings per share for the year ended 30 April 2015.
2) Calculate the Basic Earnings per share for the year ended 30 April 2016 along with comparatives.

Answer-23

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015

EPS = $\frac{1,268,000}{29,564}$

= Rs. 42.89 per share

2) 2016

EPS = $\frac{7,950,000}{43,310}$

= Rs. 183.56 per share

2015 (Restated)

EPS = 42.89 x Reciprocal of Right issue bonus Fraction
= 42.89 x 57.69/68
= Rs. 36.39 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 May	29,564	x 2/12 x 68/57.69	5,808
New shares issued on 1 June 2015	7,820		
	37,384	x 6/12 x 68/57.69	22,033
Rights share issue on 1 January 2016 (37,384/29 x 7)	9,024		
	46,408	x 4/12	15,469
			43,310

(W-2) Right issue bonus Fraction (Issued on 1 January)

= $\frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$

= 68/57.69

<u>Theoretical ex-rights price</u>

		Rs.
Before	(29 x Rs.68)	1,972
New	(7 x Rs. 15)	105
After	(36 x Rs. 57.69 (bal))	2,077

Question-24 (Right issue + new issue at full market price at mid of the year)

King Kai & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 August 2016, King Kai & Co. made a Rights issue to existing shareholders of 2 new shares for every 4 shares held at the price of Rs. 5. The market price of shares immediately before the rights issue was Rs.9.

On 1 October 2016, King Kai & Co. issued 8,000 new shares at full market price.

Total earnings in the year ending 31 December 2016 were Rs. 110,000.

Total earnings in the year ending 31 December 2015 were Rs. 90,000.

Required

1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-24

Earnings per share = $\dfrac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015

EPS = $\dfrac{90,000}{10,000}$

= Rs. 9 per share

2) 2016

EPS = $\dfrac{110,000}{15,068}$

= Rs. 7.3 per share

2015 (Restated)

EPS = 9 x Reciprocal of Bonus Fraction

= 9 x 7.7/9

= Rs. 7.7 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	x 7/12 x 9/7.7	6,818
Rights share issue on 1 August 2016 (10,000/4 x 2)	5,000		
	15,000	x 2/12	2,500
New Shares issued on 1 October 2016	8,000		
	23,000	x 3/12	5,750
			15,068

(W-2) Right issue bonus Fraction (Issued on 1 August)

= $\dfrac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$

= 9/7.7

Theoretical ex-rights price		Rs.
Before	(4 x Rs.9)	36
New	(2 x Rs. 5)	10
After	(6 x Rs. 7.7 (bal))	46

Question-25 (Right issue + new issue at full market price at mid of the year)

Devil Jin & Co., a listed company, has a financial year ending 30 November.

On 1 December 2015, there were 1,564,583 shares in issue.

On 1 May 2016, Devil Jin & Co. made a Rights issue to existing shareholders of 9 new shares for every 25 shares held at the price of Rs. 120. The market price of shares immediately before the rights issue was Rs.250.

On 1 August 2016, Devil Jin & Co. issued 86,425 new shares at full market price.

Total earnings in the year ending 30 November 2016 were Rs. 15,664,665.

Total earnings in the year ending 30 November 2015 were Rs. 8,555,485.

Required

1) Calculate the Basic Earnings per share for the year ended 30 November 2015.
2) Calculate the Basic Earnings per share for the year ended 30 November 2016 along with comparatives.

Answer-25

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) **2015**

EPS = $\frac{8,555,485}{1,564,583}$

= Rs. 5.47 per share

2) **2016**

EPS = $\frac{15,664,665}{2,026,004}$

= Rs. 7.73 per share

2015 (Restated)

EPS = 5.47 x Reciprocal of Right issue bonus Fraction

= 5.47 x 215.59/250

= Rs. 4.72 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 December	1,564,583	x 5/12 x 250/215.59	755,960
Rights share issue on 1 May 2016 (1,564,583/25 x 9)	563,250		
	2,127,833	x 3/12	531,958
New Shares issued on 1 August 2016	86,425		
	2,214,258	x 4/12	738,086
			2,026,004

(W-2) Right issue bonus Fraction (Issued on 1 May)

= Actual cum rights price / Theoretical ex rights price

= 250/215.59

Theoretical ex-rights price		Rs.
Before	(25 x Rs.250)	6,250
New	(9 x Rs. 120)	1,080
After	(34 x Rs. 215.59 (bal))	7,330

Question-26 (Right issue + Bonus issue at mid of the year)

Kazuya & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 April 2016, Kazuya & Co. made a Rights issue to existing shareholders of 4 new shares for every 5 shares held at the price of Rs. 2. The market price of shares just before the rights issue was Rs.3.

On 1 October 2016, Kazuya & Co. made a bonus issue to existing shareholders of 2 new shares for every 5 shares held.

Total earnings in the year ending 31 December 2016 were Rs. 120,000.

Total earnings in the year ending 31 December 2015 were Rs. 70,000.

Required

1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-26

Earnings per share = Earnings attributable to ordinary shareholders during a period / Weighted average number of shares in issue during the period

1) **2015**

EPS = 70,000 / 10,000

= Rs. 7 per share

2) **2016**

EPS = 120,000 / 22,938

= Rs. 5.2 per share

2015 (Restated)

EPS = 7 x Reciprocal of Bonus Fraction and Reciprocal of Right issue

= 7 x 2.6/3 x 5/7

= Rs. 4.3 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	x 3/12 x 3/2.6 x 7/5	4,038
Right shares issued on 1 April 2016 (10,000/5 x 4)	8,000		
	18,000	x 6/12 x 7/5	12,600
Bonus shares issued on 1 October 2016 (18,000/5 x 2)	7,200		
	25,200	x 3/12	6,300
			22,938

(W-2) Right issue bonus Fraction (Issued on 1 April)

$= \dfrac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$

$= 3/2.6$

Theoretical ex-rights price

		Rs.
Before	(5 x Rs.3)	15
New	(4 x Rs.2)	8
After	(9 x Rs.2.6 (bal))	23

(W-3)

	Bonus Issue
Before	5
New	2
After	7

Question-27 (Right issue + Bonus issue at mid of the year)

Cchi Cchi Michi & Co., a listed company, has a financial year ending 31 October.

On 1 November 2015, there were 3,699,852 shares in issue.

On 1 March 2016, Cchi Cchi Michi & Co. made a Rights issue to existing shareholders of 57 new shares for every 120 shares held at the price of Rs.150. The market price of shares just before the rights issue was Rs.341.

On 1 October 2016, Cchi Cchi Michi & Co. made a bonus issue to existing shareholders of 1 new share for every 25 shares held.

Total earnings in the year ending 31 October 2016 were Rs. 25,255,461.

Total earnings in the year ending 31 October r 2015 were Rs. 14,715,914.

Required

1) Calculate the Basic Earnings per share for the year ended 31 October 2015.
2) Calculate the Basic Earnings per share for the year ended 31 October 2016 along with comparatives.

Answer-27

Earnings per share = $\dfrac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015

EPS = $\dfrac{14,715,914}{3,699,852}$

= Rs. 3.98 per share

2) 2016

EPS = $\dfrac{25,255,461}{5,348,552}$

= Rs. 4.72 per share

2015 (Restated)

EPS = 3.98 x Reciprocal of Right issue & Bonus Fraction

= 3.98 x 279.5/341 x 25/26

= Rs. 3.13 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 November	3,699,852	x 4/12 x 341/279.5 x 26/25	1,564,83
Right shares issued on 1 March 2016(3,699,852/120 x 57)	1,757,430		
	5,457,282	x 7/12 x 26/25	3,310,75
Bonus shares issued on 1 October 2016(5,457,282/25 x 1)	218,291		
	5,675,573	x 1/12	472,96
			5,348,55

(W-2) Right issue bonus Fraction (Issued on 1 March)

= $\dfrac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$

= 341/279.5

Theoretical ex-rights price

		Rs.
Before	(120 x Rs.341)	40,92
New	(57 x Rs. 150)	8,55
After	(177 x Rs.279.5 (bal))	49,47

(W-3)

	Bonus Issue
Before	25
New	1
After	26

LO6: SHARE SPLIT

Share split is a situation where a share is subdivided into two or more shares. In EPS the treatment of share split is similar to the treatment of bonus shares.

Question-28 (Share split)

A company had 10,000 ordinary shares in issue during 2011. On 1 April 2012, 12,000 shares were issued at market value. On 1 June 2012, **there was a "share split" whereby every 2 shares became 5 shares.** The basic earnings were Rs. 150,000 in 2011 and Rs. 261,250 in 2012.

Required

(1) Calculate the Basic Earnings per share for the year ended 31 December 2011.

(2) Calculate the Basic Earnings per share for the year ended 31 December 2012 along with comparatives.

Answer-28

Note for students: "Every 2 shares became 5 shares" means that a shareholder who is in possession of 2 shares will get 3 new shares.

$$\text{Earnings per share} = \frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$$

1) 2011

EPS $= \frac{150,000}{10,000}$

= Rs. 15 per share

2) 2012

EPS $= \frac{261,250}{47,500}$

= Rs. 5.5 per share

2011 (Restated)

EPS = 15 x Reciprocal of share split

= 15 x 2/5

= Rs. 6 per share

(W-1) Weighted average number of shares during 2012

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	x 3/12 x 5/2	6,250
New issued shares on 1 April 2012	12,000		
	22,000	x 2/12 x 5/2	9,167
Increase due to Share split on 1 June 2012 (22,000/2 x 3)	33,000		
	55,000	x 7/12	32,083
			47,500

(W-2)

	Share split
Before	2
New	3
After	5

Question-29

Ghani Ltd. which has a year end of 31st December, carried out a 3 for 2 share split arrangement on 30th June 2016.

Following information relates to Ghani Ltd.:

Ordinary Shares as on 1st January 2015 = 6,000,000

Earnings attributable to ordinary shareholders:

2015 = Rs.8,000,000

2016 = Rs.8,000,000

Required

1. Calculate the Basic Earnings per share for the year ended 31 December 2015.
2. Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-29

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015

EPS = $\frac{8,000,000}{6,000,000}$

= Rs.1.33 per share

2) 2016

EPS = $\frac{8,000,000}{9,000,000}$

= Rs.0.89 per share

2015 (Restated)

EPS = 1.33 x Reciprocal of share split

= 1.33 x 2/3

= Rs.0.89 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January 2016	6,000,000	x 6/12 x 3/2	4,500,000
Increase due to Share split on 30 June 2016 (6,000,000/2 x 1)	3,000,000		
	9,000,000	x 6/12	4,500,000
			9,000,000

(W-2)

	Share split
Before	2
New	1
After	3

Question-30

A company had 269,000 ordinary shares in issue during 2015. On 1 September 2016, 96,000 shares were issued at market value. On 1 November 2016, there was a share split whereby every 3 shares became 7 shares. The basic earnings were Rs. 1,500,000 in 2015 and Rs. 3,612,500 in 2016.

Required

1. Calculate the Basic Earnings per share for the year ended 31 December 2015.
2. Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-30

Earnings per share = $\dfrac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015

EPS = $\dfrac{1,500,000}{269,000}$

= Rs. 5.58 per share

2) 2016

EPS = $\dfrac{3,612,500}{702,333}$

= Rs. 5.14 per share

2015 (Restated)

EPS = 5.58 x Reciprocal of share split

= 5.58 x 3/7

= Rs. 2.39 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January 2016	269,000	x 8/12 x 7/3	418,444
New issued shares on 1 September 2016	96,000		
	365,000	x 2/12 x 7/3	141,944
Increase due to Share split on 1 November 2016 (365,000/3 x 4)	486,667		
	851,667	x 2/12	141,945
			702,333

(W-2)

	Share split
Before	3
New	4
After	7

LO7: SHARE CONSOLIDATION (REVERSE SHARE SPLIT)

A share consolidation is the combination of 2 or more shares into 1. It is reverse of split. The treatment is very similar to that of a split with the exception that the number of shares involved is subtracted rather than added.

Question-31 (Share consolidation)

A company had 12,000 ordinary shares in issue during 20X2.

On 1 November 20X3, the company consolidated its shares such that **every 3 shares were consolidated into 1 share.**

The basic earnings in 20X2 were Rs. 24,000 and Rs. 24,000 in 20X3.

Answer-31

Note for students: "Every 3 shares were consolidated into 1 share" means that a shareholder who is in possession of 3 shares will lose 2 old shares.

Earnings per share = Earnings attributable to ordinary shareholders during a period / Weighted average number of shares in issue during the period

1) **20X2**
EPS = 24,000 / 12,000
= Rs. 2 per share

2) **20X3**
EPS = 24,000 / 4,000
= Rs. 6 per share

20X2 (Restated)
EPS = 2 x Reciprocal of share consolidation
= 2 x 3/1
= Rs. 6 per share

(W-1) Weighted average number of shares during 20X3

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	12,000	x 10/12 x 1/3	3,333
Reduction due to Share consolidation on 1.11.20X3 (12,000/3 x 2)	(8,000)		
	4,000	x 2/12	667
			4,000

(W-2)

	Share consolidation
Before	3
Loss	(2)
After	1

Question-32

ABC Ltd. which has a year end of 31st December, carried out a 2 for 3 share consolidation arrangement on 30th June 2016.

Following information relates to ABC Ltd.:

Ordinary Shares as on 1st January 2015 = 6,000,000

Earnings attributable to ordinary shareholders:

2015 = Rs.4,000,000

2016 = Rs.4,000,000

Required

1. Calculate the Basic Earnings per share for the year ended 31 December 2015.
2. Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-32

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015

EPS = $\frac{4,000,000}{6,000,000}$

= Rs.0.667 per share

2) 2016

EPS = $\frac{4,000,000}{4,000,000}$

= Rs.1 per share

2015 (Restated)

EPS = 0.667 x Reciprocal of share consolidation

= 0.667 x 3/2

= Rs.1 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January 2016	6,000,000	x 6/12 x 2/3	2,000,000
Reduction due to Share consolidation on 30 June 2016 (6,000,000/3 x 1)	(2,000,000)		
	4,000,000	x 6/12	2,000,000
			4,000,000

(W-2)

	Share consolidation
Before	3
Loss	(1)
After	2

Question-33

A company had 580,000 ordinary shares in issue on 30 November 2015. On 1 March 2016, 106,000 shares were issued at market value.

On 1 September 2016, the company consolidated its shares such that every 8 shares were consolidated into 3 share. The basic earnings in 2015 were Rs. 3,223,200 and Rs. 5,756,766 in 2016.

Required

1. Calculate the Basic Earnings per share for the year ended 30 November 2015.
2. Calculate the Basic Earnings per share for the year ended 30 November 2016 along with comparatives.

Answer-33

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015

EPS = $\frac{3,223,200}{580,000}$

= Rs. 5.56 per share

2) 2016

EPS = $\frac{5,756,766}{247,313}$

= Rs. 23.28 per share

2015 (Restated)

EPS = 5.56 x Reciprocal of share consolidation

= 5.56 x 8/3

= Rs. 14.83 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 December 2015	580,000	x 3/12 x 3/8	54,375
New issued shares on 1 March 2016	106,000		
	686,000	x 6/12 x 3/8	128,625
Reduction due to Share consolidation on 1.9.2016 (686,000/8 x 5)	(428,750)		
	257,250	x 3/12	64,313
			247,313

(W-2)

	Share consolidation
Before	8
Loss	(5)
After	3

Question-34

Shair Baz & Co., a listed company, has a financial year ending 28 February.

On 1 March 2015, there were 2,658,550 shares in issue.

On 1 June 2015, the company consolidated its shares such that every 11 shares were consolidated into 5 shares.

On 1 October 2015, Shair Baz & Co. made a Rights issue to existing shareholders of 13 new shares for every 63 shares held at the price of Rs. 25. The market price of shares just before the rights issue was Rs. 64 per share.

On 1 December 2015, there was a share split whereby every 8 shares became 13 shares.

Total earnings in the year ending 29 February 2016 were Rs. 8,545,000.

Total earnings in the year ending 28 February 2015 were Rs. 5,561,000.

Required

1. Calculate the Basic Earnings per share for the year ended 28 February 2015.
2. Calculate the Basic Earnings per share for the year ended 29 February 2016 along with comparatives.

Answer-34

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015

EPS = $\frac{5{,}561{,}000}{2{,}658{,}550}$

= Rs. 2.09 per share

2) 2016

EPS = $\frac{8{,}545{,}000}{2{,}265{,}810}$

= Rs. 3.77 per share

2015 (Restated)

EPS = 2.09 x Reciprocal of Right issue bonus Fraction , Share split & Share Consolidation

= 2.09 x 11/5 x 57.33/64 x 8/13

= Rs. 2.53 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 March 2015	2,658,550	x 3/12 x 5/11 x 64/57.33 x 13/8	548,042
Reduction due to Share consolidation on 1.6.2015 (2,658,550/11 x 6)	(1,450,118)		
	1,208,432	x 4/12 x 64/57.33 x 13/8	730,722
Right shares issued on 1 October (1,208,432/63 x 13)	249,359		
	1,457,791	x 2/12 x 13/8	394,818
Increase due to Share split on 1 December 2016 (1,457,791/8 x 5)	911,119		
	2,368,910	x 3/12	592,228
			2,265,810

(W-2)

	Share consolidation	Share split
Before	11	8
New/(Loss)	(6)	5
After	5	13

(W-3) **Right issue bonus Fraction**

= Actual cum rights price / Theoretical ex rights price

= 64/57.33

Theoretical ex-rights price		Rs.
Before	(63 x Rs.64)	4,032
New	(13 x Rs. 25)	325
After	(76 x Rs.57.33 (bal))	4,357

Question-35 (Bonus issue at mid of year)

Talha Chaudhry & Co., a listed company, has a financial year ending 30 November.

On 1 December 2015, there were 97,000 shares in issue.

On 1 March 2016, there was a share split whereby every 4 shares became 7 shares.

On 1 August 2016, Talha Chaudhry & Co. made a bonus issue to existing shareholders of 7 new share for every 12 shares held.

On 1 October 2016, the company consolidated its shares such that every 6 shares were consolidated into 1 share.

Total earnings in the year ending 30 November 2016 were Rs. 2,570,000.

Total earnings in the year ending 30 November 2015 were Rs. 2,570,000.

Required

1. Calculate the Basic Earnings per share for the year ended 30 November 2015.
2. Calculate the Basic Earnings per share for the year ended 30 November 2016 along with comparatives.

Answer-35

Earnings per share = Earnings attributable to ordinary shareholders during a period / Weighted average number of shares in issue during the period

1) **2015**

EPS = 2,570,000 / 97,000

= Rs. 26.49 per share

2) **2016**

EPS = 2,570,000 / 44,796

= Rs. 57.37 per share

2015 (Restated)

EPS = 26.49 x Reciprocal of Bonus Fraction, share split & share consolidation

= 26.49 x 4/7 x 12/19 x 6/1

= Rs. 57.36 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 December	97,000	x 3/12 x7/4 x 19/12 x 1/6	11,199
Increase due to Share split on 1 March 2016 (97,000/4 x 3)	72,750		
	169,750	x 5/12 x 19/12 x 1/6	18,665
Bonus shares issued on 1 August 2016 (169,750/12 x 7)	99,021		
	268,771	x 2/12 x 1/6	7,466
Reduction due to Share consolidation on 1.10.2016 (268,771/6 x 5)	(223,976)		
	44,795	x 2/12	7,466
			44,796

(W-2)

	Share split	Bonus issue	Share consolidation
Before	4	12	6
New/(Loss)	3	7	(5)
After	7	19	1

LO8: PARTLY PAID ORDINARY SHARES

The number of ordinary shares is calculated based on the number of fully paid shares. In order to do this partly paid shares are included as an equivalent number of fully paid shares to the extent they are entitled to participate in dividends.

Question-36

Company A has a financial year ending 31 December.

On 1 January Year 1 there were 6,000,000 ordinary shares in issue.

1,000,000 of these shares were partly paid to 75% of their value which entitles them to 75% dividend as compared to a fully paid share.

On 1 April, the remaining 25% of the value of the partly paid shares was received.

Total earnings in Year 1 were Rs.24,750,000.

Required

Calculate EPS for Year 1

Answer-36

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

Year 1

EPS = $\frac{24,750,000}{5,937,500}$

= Rs. 4.17 per share

(W-1) Weighted average number of shares during the period

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1January (6,000,000-250,000)	5,750,000	x 3/12	1,437,500
Receipt of partly of balance on partly paid shares (25% of1,000,000)	250,000		
1 April to 31 December	6,000,000	x 9/12	4,500,000
			5,937,500

LO9: EARNINGS PER SHARE IN CASE OF DISCONTINUED OPERATIONS

Earnings Per Share in case of Discontinued operations:

Earnings from discontinued operations are dealt with separately. An EPS from any **discontinued operations** must also be disclosed, but this does not have to be disclosed on the face of the statement of profit or loss. Instead, it may be shown in a note to the financial statements.

Question-37 (Basic EPS)

In the year ended 31 December Year 1, Entity G made profit after tax of Rs.3,500,000. Of this, Rs.3,000,000 was from continuing operations and Rs.500,000 from discontinued operations. It paid ordinary dividends of Rs.150,000 and preference dividends of Rs.65,000.

The preference shares were correctly classified as liabilities in accordance with IAS 32.

Entity G had 1 million ordinary shares in issue throughout the year

Required

Calculate basic EPS for the year ended 31 December Year 1.

Answer-37

$$EPS = \frac{\text{Net profit (or loss) attributable to ordinary shareholders during a period}}{\text{weighted average number of shares in issue during the period}}$$

Year 1

$$EPS = \frac{3,000,000}{1,000,000}$$

= Rs. 3 per share(EPS from continued operation)

$$EPS = \frac{500,000}{1,000,000}$$

= Rs. 0.5 per share(EPS from discontinued operation)

Question-38

In the year ended 31 December Year 1, Entity G made profit after tax of Rs.3,500,000. Of this, Rs.3,000,000 was from continuing operations and Rs.500,000 from discontinued operations.

It paid ordinary dividends of Rs.150,000 and preference dividends of Rs.65,000. The preference shares were correctly classified as equity in accordance with IAS 32.

Entity G had 1 million ordinary shares in issue throughout the year.

Required

Calculate basic EPS for the year ended 31 December Year 1.

Answer-38

EPS = $\frac{\text{Net profit (or loss) attributable to ordinary shareholders during a period}}{\text{weighted average number of shares in issue during the period}}$

Year 1

EPS = $\frac{3,000,000 - 65,000}{1,000,000}$

= Rs. 2.94 per share(EPS from continued operation)

EPS = $\frac{500,000}{1,000,000}$

= Rs. 0.5 per share(EPS from discontinued operation)

LO10: DILUTED EPS

An entity might have potential ordinary shares in issue. There is a possibility that these will become actual ordinary shares at some time in the future. Potential ordinary shares do not impact calculation of basic EPS but diluted EPS might differ from basic EPS when there are potential ordinary shares in existence.

Examples of potential ordinary shares include:

- Convertible bonds (debentures)
- Convertible preference shares
- Share options or warrants

(a) **Definitions**

(i) Options, warrants and their equivalents are financial instruments that give the holder the right to purchase ordinary shares.

If potential shares become actual ordinary shares, the earnings figure will be shared with a larger number of ordinary shares. This might dilute the EPS. The literal meaning of 'dilution' is 'watering down' or 'reduction in strength. IAS 33 defines 'dilution' as follows:

(ii) Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

The objective of diluted EPS is consistent with that of basic earnings per share, that is, to provide a measure of the performance of each ordinary share taking into account dilutive potential ordinary shares outstanding during the period.

If potential ordinary shares become actual ordinary shares, not only there would be change in number of shares but earnings may also change as entity will no longer be paying interest on convertible bonds or dividend on convertible preference shares.

For the purpose of calculating diluted EPS, an entity shall adjust profit or loss attributable to ordinary equity holders, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

Not all potential ordinary shares are dilutive, though, and may be anti-dilutive.

(iii) Anti-dilution is an increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

1. **When potential ordinary shares are anti-dilutive**

When potential ordinary shares are anti-dilutive, they are disregarded in the calculation of diluted EPS. The following summary is helpful:

Convertible bonds

Incremental EPS = Interest (net of tax) / ordinary shares obtainable on conversion Anti-dilutive, when:

- Incremental EPS > basic earnings per share
- Incremental EPS < basic loss per share

Convertible preference shares

Incremental EPS = Dividend for current period / ordinary shares obtainable on conversion Anti-dilutive, when:

- Incremental EPS > basic earnings per share
- Incremental EPS < basic loss per share

Options and warrants

Anti-dilutive, when:

- Options are 'out of money' in case of basic earnings per share
- There is basic loss per share

Options are 'out of money' when exercise price of the option exceeds share price. Nobody

would pay an exercise price of Rs. 100 for something worth only Rs. 80.

2. **Convertible instruments**

When there are convertible bonds or convertible preference shares, diluted EPS is calculated as follows, by making adjustments to total earnings and the number of shares in issue used in the basic EPS calculation.

Earnings

Earnings are adjusted because the entity would not have to pay the dividend or interest on the convertible securities.

- For convertible preference shares, add back the preference dividend paid in the year. Total earnings will be increased by the preference dividend saved.
- For convertible bonds, add back the interest charge on the bonds in the year less the tax relief relating to that interest. Total earnings will increase by the interest saved less tax.

Number of shares

The weighted average number of shares is increased, by adding the maximum number of new shares that would be created if all the potential ordinary shares were converted into actual ordinary shares.

The additional number of shares is calculated on the assumption that they were in issue from the beginning of the year or from the date of issue whichever is later.

IAS 33 provides for use of most dilutive option when multiple conversion options are available.

If new convertibles are issued during the course of the year, the additional number of shares and the earnings adjustment are included only from the time that the convertibles were issued.

Question 39

Gold Limited

Gold Limited (GL) has 12,000,000 ordinary shares and Rs. 4,000,000 5% convertible bonds in issue as at 31 December 20X2, there have been no new issues of shares or bonds for several years.

The bonds are convertible into ordinary shares in 20X3 or 20X4, at the following rates:

- At 30 shares for every Rs. 100 of bonds if converted at 31 December 20X3
- At 25 shares for every Rs. 100 of bonds if converted at 31 December 20X4

Total earnings for the year to 31 December 20X2 were Rs. 36,000,000. Tax is payable at a rate of 30% on profits.

Required:

Calculate basic EPS and diluted EPS for the year ended 31 December 20X2. *(ICAP ST Example-15)*

Answer 39

$$\text{Basic EPS (20X2)} = \frac{\text{Rs. } 36{,}000{,}000}{12{,}000{,}000 \text{ shares}} = \text{Rs. } 3 \text{ per share}$$

Convertible bonds

Interest saving = Rs. 4,000,000 x 5% = Rs. 200,000

Tax effect = Rs. 200,000 x 30% = Rs. 60,000

Incremental earnings = Rs. 200,000 – 60,000 = Rs. 140,000

Incremental shares (maximum) = Rs. 4,000,000 / 100 x 30 shares = 1,200,000 shares

Incremental EPS = Rs. 140,000 / 1,200,000 shares = Rs. 0.1167

These are potentially dilutive since incremental EPS is less than basic EPS.

$$\text{Diluted EPS (20X2)} = \frac{\text{Rs. } 36{,}000{,}000 + 140{,}000}{12{,}000{,}000 + 1{,}200{,}000 \text{ shares}} = \text{Rs. } 2.74 \text{ per share}$$

3. Share options or warrants

If the option holder exercises this right the number of shares would increase and the company would receive the cash paid for the shares and this would be available to invest in the business and in turn this would be expected to,boost its earnings. However, it is impossible to predict how total earnings will be affected when the cash is eventually received.

This presents a problem. Including the shares in the diluted EPS calculation without adjusting the earnings would be inconsistent but it is not possible to adjust the earnings.

IAS 33 solves this problem in quite a neat way. The amount that would be received on exercise of the options is treated as cash received from selling shares at full price with the remaining shares having been given away. The shares sold at full price are not considered to be dilutive as any cash would be invested to earn the same return as earned in the period. It is only the free shares that are dilutive.

Free shares can be calculated as follows:

Formula: Free shares	
	Fair value* – Exercise price
Number of options in issue	Fair value*
*Average share price during the period	

Diluted EPS can be calculated by adding free shares in weighted average number of shares used in basic EPS calculation and not change in the amount of earnings is required.

Question 40

Bronze Limited

Bronze Limited (BL) had total earnings during Year 20X3 of Rs. 25,000,000. It has 5,000,000 ordinary shares in issue.

There are outstanding share options on 400,000 shares, which can be exercised at a future date, at an exercise price of Rs. 25 per share.

The average market price of shares in BL during Year 20X3 was Rs. 40.

Required:

Calculate basic EPS and diluted EPS for the year ended 31 December 20X3. *(ICAP ST Example-17)*

Answer: 40

$$\text{Basic EPS (20X3)} = \frac{\text{Rs. }25{,}000{,}000}{5{,}000{,}000 \text{ shares}} = \text{Rs. 5 per share}$$

Share options

These are dilutive since exercise price of Rs. 25 is less than share market price of Rs. 40 i.e. in the money options.

Free shares = 400,000 options x (40 – 25) / 40 = 150,000 shares

$$\text{Diluted EPS (20X3)} = \frac{\text{Rs. }25{,}000{,}000}{5{,}000{,}000 + 150{,}000 \text{ shares}} = \text{Rs. 4.85 per share}$$

4. **Order of dilution**

When there are several types of potential ordinary share in issue, they should be ranked in order of dilution, with the most dilutive potential ordinary shares ranked first. In order to carry out the ranking the earnings per incremental share is found for each potential ordinary share. This is the earnings adjustment that would be necessarily divided by the number of shares that would come into being if the share were included in the calculation of diluted EPS.

Note that 'in the money' options always rank first as they increase the number of shares in the calculation without affecting the earnings

LO11:EARNINGS PER SHARE AS A PERFORMANCE MEASURE

Earnings per share and trends

The price/earnings ratio

The price/earnings ratio (P/E ratio) is a key stock market ratio. The P/E ratio is calculated as follows:

Formula: Price earnings ratio

$$\text{P/E ratio} = \frac{\text{Market value of share}}{\text{Earnings per share}}$$

A high P/E ratio usually indicates that the stock exchange expects strong performance from the company in the future. Higher the P/E better it is for the company.

Significance of Earnings per share

EPS is used by investors as a measure of the performance of companies in which they invest - or might possibly invest. Investors are usually interested in changes in a company's EPS over time - trends - and also in the size of EPS relative to the current market price of the company's shares.

EPS should therefore be calculated by all companies in a standard way, so that investors can obtain a reliable comparison between the EPS and P/E ratios of different companies.

The purpose of standardising the calculation and presentation of EPS is to make it easier for the users of financial statements to compare the performance of:

- different entities in the same reporting period; and
- the same entity for different reporting periods over time.

LO12:PRESENTATION AND DISCLOSURE

Presentation requirements

An entity should present in the statement of profit or loss:

- the basic EPS and
- the diluted EPS

for the profit or loss from continuing operations.

For consolidated accounts, this is the EPS and diluted EPS attributable to the owners of the parent company.

The basic EPS and diluted EPS should be presented with equal prominence for all the periods presented (the current year and the previous year). These figures are presented at the end of the statement of profit or loss.

If the entity presents a separate statement of profit or loss:

- the EPS and diluted EPS should be shown in this statement, and
- not in the statement of comprehensive income.

If there is a discontinued operation, the basic EPS and diluted EPS from discontinued operation should be shown either on the face of the statement of profit or loss or in a note to the financial statements.

The basic and the diluted EPS should be presented, even if it is a negative figure (even if it is a loss per share).

If diluted earnings per share is reported for at least one period, it shall be reported for all periods presented, even if it equals basic earnings per share. If basic and diluted earnings per share are equal, dual presentation can be accomplished in one line in the statement of comprehensive income.

Disclosure requirements

IAS 33 also requires disclosure in a note to the financial statements of the following:

- The total amounts used as the numerators (total earnings figures) to calculate the basic EPS and diluted EPS, and a reconciliation of these numerator figures to the profit or loss for the period
- The total amounts used in the denominators (weighted average number of shares to calculate the basic EPS and diluted EPS, and a reconciliation of these two denominator figures to each other.

Additional measure of EPS

An entity may disclose, in addition to basic and diluted earnings per share, amounts per share using a reported component of profit other than one required by IAS 33, for example, EPS based on operating profit or profit from major segment of the business. In such case, the following requirements apply:

- such amounts shall be calculated using the weighted average number of ordinary shares determined in accordance with IAS 33.
- Basic and diluted amounts per share relating to such a component shall be disclosed with equal prominence and presented in the notes (not on face).
- An entity shall indicate the basis on which the numerator(s) is (are) determined including whether amounts per share are before tax or after tax.
- If a component of profit is used that is not reported as a line item in the statement of profit or loss and other comprehensive income, a reconciliation shall be provided.

CHAPTER-07
EARNINGS PER SHARE
PRACTICE QUESTIONS

Question-1 (Full Market Price Twice)

Company B has a financial year ending 31 December.

On 1 January Year 3, there were 9,000,000 ordinary shares in issue.

On 1 May, Company B issued 1,200,000 new share at full market price.

On 1 October, it issued a further 1,800,000 new share, also at full market price.

Total earnings in year 3 were Rs. 36,900,000.

Required

Calculate the Earnings per share for the year ended 31 December year 3.

Question-2 (Bonus Shares issued at mid)

Company C has a 31 December financial year end.

On 1 January Year 5 it has 4,000,000 shares in issue.

On 1 July Year 5 it made a 1 for 4 bonus issue.

Total earnings in the year ending 31 December Year 5 were Rs. 20,000,000.

Total earnings in the year ending 31 December Year 4 were Rs. 20,000,000.

Required

1) Calculate the Basic Earnings per share for the year ended 31 December Year 4.
2) Calculate the Basic Earnings per share for the year ended 31 December Year 5 along with comparatives.

Question-3 (Full Market Price + Bonus Shares Issued)

Company D has a 31 December year end and had 2,000,000 ordinary shares in issue on 1 January Year 2.

On 31 March Year 2, it issued 500,000 ordinary shares, at full market price.

On 1 July Year 2, Company D made a 1 for 2 bonus issue.

In Year 1, the EPS had been calculated as Rs.30 per share.

In Year 2, total earnings were Rs. 85,500,000.

Required

Calculate the Basic Earnings per share for the year ended 31 December Year 2 along with comparatives.

Question-4 (Right Shares Issued + Full Market Price)

Company F had 3 million ordinary shares in issue on 1 January Year 7.

On 1 April Year 7, it made a 1 for 2 rights issue of 1,500,000 ordinary shares at Rs.20 per share.

The market price of the shares prior to the rights issue was Rs.50.

An issue of 400,000 shares at full market price was then made on 1 August Year 7.

In the year to 31 December Year 7, total earnings were Rs.17,468,750. In Year 6 EPS had been reported as Rs.3.5.

Required

Calculate the EPS for the year to 31 December Year 7, and the adjusted EPS for Year 6 for comparative purposes.

Question-5

A company issued 200,000 shares at full market price (Rs.3) on 1 July 20X8.

Relevant information

	31.12 20X8	31.12 20X7
Profit attributable to the ordinary shareholders for the year ending 31 December	550,000	460,000
Number of ordinary shares in issue at 31 December	1,000,000	800,000

Required

1) Calculate the Basic Earnings per share for the year ended 31 December 20X7.
2) Calculate the Basic Earnings per share for the year ended 31 December Year 20X8 along with comparatives.

Question-6

Gerard's earnings for the year ended 31 December 20X4 are Rs. 2,208,000. On 1 January 20X4, the issued share capital of Gerard was 8,280,000 ordinary shares of Rs.1each. The company issued 3,312,000 shares at full market value on 30 June 20X4.

Required

Calculate the EPS for Gerard for 20X4.

Question-7

A company makes a bonus issue of one new share for every five existing shares held on 1 July 20X8.

	31.12 20X8	31.12 20X7
Profit attributable to the ordinary shareholders for the year ending 31 December	550,000	460,000
Number of ordinary shares in issue at 31 December	1,200,000	1,000,000

Required

1) Calculate the Basic Earnings per share for the year ended 31 December 20X7.
2) Calculate the Basic Earnings per share for the year ended 31 December 20X8 along with comparatives.

Question-8

Dorabella Plc had the following capital and reserves on 1 April 20X1:

	Rs.000
Share capital (Rs.1 ordinary shares)	7,000
Share premium	900
Revaluation reserve	500
Retained earnings	9,000
Shareholders' funds (Equity)	17,400

Dorabella Plc makes a bonus issue, of one share for every seven held, on 31 August 20X2.

Dorabella Plc's results are as follows:

	31.March 20X3	31.March 20X2
	Rs.000	Rs.000
Profit after tax	1,150	750

Required

1) Calculate the Basic Earnings per share for the year ended 31 March 20X1.
2) Calculate the Basic Earnings per share for the year ended 31 March 20X2 along with comparatives.

Question-9

An entity had 1 million shares in issue on 1 January 20X1. They issued 200,000 shares at market value on 1 April, followed by a 1 for 5 bonus issue on 1 August, with a further 300,000 issued at market value on 1 October.

Required

If profit for the year ending 31 December 20X1 is Rs.220,000, what is the basic earnings per share?

Question-10

A company issued one new share for every two existing shares held by way of rights at Rs.1.50 per share on 1 July 20X8. Pre-issue market price was Rs.3.00 per share.

Relevant information

	31.12 20X8	31.12 20X7
Profit attributable to the ordinary shareholders for the year ending 31 December	Rs.550,000	Rs.460,000
Number of ordinary shares in issue at 31 December	1,200,000	800,000

Required

1) Calculate the Basic Earnings per share for the year ended 31 December 20X7.
2) Calculate the Basic Earnings per share for the year ended 31 December 20X8 along with comparatives.

Question-11

On 31 December 20X1, the issued share capital consisted of 4,000,000 Ordinary shares of Rs.0.25 each. On 1 July 20X2 the company made a rights issue in the proportion of 1 for 4 at Rs.0.5 per share and the shares were quoted immediately before the issue at Rs.1. Its trading results for the last two years were as follows:

	Year ended 31 December	
	20X1	20X2
	Rs.	Rs.
Profit after tax	320,000	425,000

Required

1) Calculate the Basic Earnings per share for the year ended 31 December 20X1.
2) Calculate the Basic Earnings per share for the year ended 31 December 20X2 along with comparatives.

Question-12

An entity had 14 million ordinary shares in issue on 1 January 20X4 and 20X5. In its financial year ended 31 December 20X5 it issued further shares, as follows:

- On 1 April 20X5, 2 for 7 bonus shares issued.
- On 1 July 20X5 a rights issue of one for six at Rs.15 when the market price of the existing shares was Rs.20.

A profit of Rs.17 million attributable to the ordinary equity holders was reported for 20X5 and Rs.14 million for 20X4.

Required

1) Calculate the Basic Earnings per share for the year ended 31 December 20X4.
2) Calculate the Basic Earnings per share for the year ended 31 December 20X5 along with comparatives.

Question-13

Turaco is a company listed on a recognised stock exchange. Given below is an extract from its statement of comprehensive income for the year ended 31 December 20X6.

	Rs.
Profit before tax	500,000
Tax	150,000
Profit after tax	350,000

The company paid an ordinary dividend of Rs.20,000 and a dividend on its redeemable preference shares of Rs.70,000.

The company had Rs.100,000 of share capital . Par value per share is Rs.0.50 in issue throughout the year and authorised share capital of 1,000,000 ordinary shares.

Required

What is the basic earnings per share figure for the year according to IAS 33 Earnings per Share?

Question-14

Puffbird is a company listed on a recognised stock exchange. Its financial statements for the year ended 31 December 20X6 showed earnings per share of Rs.0.95.

On 1 July 20X7 Puffbird made a one for three bonus issue.

Required

According to IAS 33 Earnings per Share, what figure for the 20X6 earnings per share will be shown as comparative information in the financial statements for the year ended 31 December 20X7?

Question-15

The Urtica Company is listed on a recognised stock exchange.

During the year ended 31 December 20X6, the company had 5 million ordinary shares of Rs.1 and 500,000 6% irredeemable preference shares of Rs.1 in issue.

Profit before tax for the year was Rs.300,000 and the tax charge was Rs.75,000.

Required

According to IAS 33 Earnings per Share, what is Urtica's basic earnings per share for the year?

Question-16

The Garfish Company had profits after tax of Rs.3 million in the year ended 31 December 20X7. On 1 January 20X7, Garfish had 2.4 million ordinary shares in issue. On 1 April 20X7 Garfish made a one for two rights issue at a price of Rs.1.4 when the market price of Garfish's shares was Rs.2

Required

What is Garfish's basic earnings per share figure for the year ended 31 December 20X7, according to IAS 33 Earnings per Share?

Question-17

The Sakho Company has 850,000 ordinary shares in issue on 1 January 20X7 and had the following share transactions in the year ended 31 December 20X7.

(i) A one for five bonus issue on 1 May 20X7

(ii) A two for five rights issue on 1 September 20X7 at Rs.0.45 when the market price was Rs.1.50.

Required

Indicate whether the following statements are true or false according to IAS 33 Earnings per Share.

(a) The basic earnings per share for the year ended 31 December 20X6 has to be adjusted by a fraction of 5/6.

(b) For the calculation of 20X7 basic earnings per share, the number of shares in issue prior to the rights issue has to be adjusted by a rights fraction of 1.50/1.20.

Question-18

On 1 January the issued share capital of Pillbox was 12 million, redeemable preference shares of Rs.1 each and 10 million ordinary shares of Rs.1 each. The earnings for the year ended 31 December were Rs.5,950,000.

Required

Calculate the EPS (for (a) - (d)) separately in respect of the year ended 31 December 20X7 for each of the following independent circumstances, on the basis that:

(a) There was no change in the issued share capital of the company, during the year ended 31 December

(b) The company made a bonus issue on 1 October of one ordinary share for every four shares in issue at 30 September

(c) The company issued 1 share for every 10 shares on 1 August at full market value of Rs.4

(d) The company made a rights issue of 1 ordinary share on 1 October in the proportion of 1 of every 3 shares held, at a price of Rs.3. The middle market price for the shares on the last day of quotation cum rights was Rs.4 per share

Question-19

XYZ limited company has the following profit after tax figures;

	Rs, In million
2006	1.1
2007	1.5
2008	1.8

On 1.1.2007, the number of shares outstanding were 500,000. During 2007 the company announced a right share with the following detail.

Rights: 1 new share for every 5 shares held	
Exercise price	Rs.5
Last date to exercise the right is 1.3.2007	

The market value of one share of the company immediately prior to exercise of rights on 1.3.2007 is Rs. 11.

Required

Calculate the EPS for the year ended 31.12.2006, 2007 and 2008. For 2007 also show comparatives.

Question-20

BE limited Following information relates to the company for the year ended June 30;

	Rs. 2001	Rs. 2000
Net (loss)/profit after tax	(8,000,000)	6,500,000
Ordinary share capital	1,200,000	1,000,000
10% cumulative preference shares	500,000	500,000

- All the shares of the company are of Rs.1 each.
- Company issued 20,000 ordinary shares for cash on January 1, 2000 (if nothing is mentioned then assume that at full market value)
- Company declared cash dividend of 30% and bonus shares of 20% in the year 2000. The bonus shares were issued to the shareholders on January 1, 2001.

Required

1) Calculate the Basic Earnings per share for the year ended 30 June 20X0.
2) Calculate the Basic Earnings per share for the year ended 30 June 20X1 along with comparatives.

Question-21

In the year ended 31 December 20X6, there were 12 million ordinary shares in issue and the earnings per share was calculated as Rs.0.333 per share. In the year ended 31 December 20X7 the earnings available for ordinary shareholders amounted to Rs.5 million.

On 30 September 20X7 the company made a one for four bonus issue.

Required

What is the EPS for the year ended 31 December 20X7 and the restated EPS for the year ended 31 December 20X6?

Question-22

In the year ended 31 December 20X6, there were 12 million ordinary shares in issue and that earning available for ordinary shareholders was Rs.4 million. In the year ended 31 December 20X7 the earning available for ordinary shareholders amounted to Rs.5 million.

On 31 March 20X7 the company issued two million extra shares for cash.

Required

1) Calculate the Basic Earnings per share for the year ended 31 December 20X6.
2) Calculate the Basic Earnings per share for the year ended 31 December 20X7 along with comparatives.

Question-23

In the year ended 31 December 20X6, there were 12 million ordinary shares in issue and the earnings per share was calculated as Rs.0.333 per share. In the year ended 31 December 20X7 the earnings available for ordinary shareholders amounted to Rs.5 million.

The company made a one for five rights issue on 30 June 20X7 at a price of Rs.1.50 and the cum rights price on the last day before the rights issue was Rs2.

Required

1) Calculate the Basic Earnings per share for the year ended 31 December 20X6.
2) Calculate the Basic Earnings per share for the year ended 31 December 20X7 along with comparatives.

Question-24

Beta & Co., a listed company, has a financial year ending 30 November.

On 1 December 2015, there were 97,000 shares in issue.

On 1 February 2016 Beta & Co, Issued 5,000 new shares for Rs.15 at market price.

On 1 April 2016, Beta & Co. made a bonus issue to existing shareholders of 3 new share for every 8 shares held.

On 30 June 2016, there was a share split whereby every 5 shares became 8 shares.

On 1 October 2016, the company consolidated its shares such that every 8 shares were consolidated into 2 shares.

Total earnings in the year ending 30 November 2016 were Rs. 5,860,000.

Total earnings in the year ending 30 November 2015 were Rs. 5,860,000.

Required

1. Calculate the Basic Earnings per share for the year ended 30 November 2015.
2. Calculate the Basic Earnings per share for the year ended 30 November 2016 along with comparatives.

Question-25

Delta & Co., a listed company, has a financial year ending 28 February.

On 1 March 2015, there were 870,000 shares in issue.

On 31 July 2015 Delta & Co, Issued 96,000 new shares for Rs.70 at market price.

On 30 September 2015, there was a share split whereby every 3 shares became 9 shares.

On 1 December 2015, Delta & Co. made a bonus issue to existing shareholders of 5 new share for every 7 shares held.

On 1 February 2016, the company consolidated its shares such that every 10 shares were consolidated into 3 shares.

Total earnings in the year ending 28 February 2016 were Rs. 85,997,220.

Total earnings in the year ending 28 February 2015 were Rs. 75,455,523.

Required

1. Calculate the Basic Earnings per share for the year ended 28 February 2015.
2. Calculate the Basic Earnings per share for the year ended 28 February 2016 along with comparatives.

Question-26

Gamma & Co., a listed company, has a financial year ending 30 September.

On 1 October 2015, there were 9,870,556 shares in issue.

On 31 December 2015 Gamma & Co. Issued 895,556 new shares for Rs.56 at market price.

On 1 February 2016, the company consolidated its shares such that every 9 shares were consolidated into 6 shares.

On 1 June 2016, Gamma & Co. made a bonus issue to existing shareholders of 5 new share for every 7 shares held.

On 30 August 2016, there was a share split whereby every 1 shares became 7 shares.

Total earnings in the year ending 30 September 2016 were Rs. 83,665,463

Total earnings in the year ending 30 September 2015 were Rs. 86,546,354.

Required

1. Calculate the Basic Earnings per share for the year ended 30 September 2015.
2. Calculate the Basic Earnings per share for the year ended 30 September 2016 along with comparatives.

Question-27

Aindawal & Co., a listed company, has a financial year ending 30 June.

On 1 July 2015, there were 9,870,556 shares in issue.

On 30 August 2015, there was a share split whereby every 5 shares became 6 shares.

On 31 December 2015 Aindawal & Co, Issued 35,000 new shares for Rs.20 at market price.

On 30 March 2016, there was a share split whereby every 3 shares became 7 shares.

On 1 May 2016, the company consolidated its shares such that every 9 shares were consolidated into 4 shares.

Total earnings in the year ending 30 June 2016 were Rs. 5,564,544

Total earnings in the year ending 30 June 2015 were Rs. 4,535,431.

Required

1. Calculate the Basic Earnings per share for the year ended 30 June 2015.
2. Calculate the Basic Earnings per share for the year ended 30 June 2016 along with comparatives.

Question-28

Sega & Co., a listed company, has a financial year ending 30 November.

On 1 December 2015, there were 97,000 shares in issue.

On 1 February Sega & Co, Issued 5,000 new shares at market price.

On 1 April 2016, Sega & Co. made a bonus issue to existing shareholders of 3 new shares for every 8 shares held.

On 1 September 2016, the company consolidated its shares such that every 8 shares were consolidated into 2 shares

On 1 October 2016, Sega & Co. made a right issue to existing shareholders of 3 new shares for every 5 held at the price of Rs. 7. The market price of shares just before the rights issue was Rs. 12 per share.

Total earnings in the year ending 30 November 2016 were Rs. 780,600.

Total earnings in the year ending 30 November 2015 were Rs. 580,200.

Required

1. Calculate the Basic Earnings per share for the year ended 30 November 2015.
2. Calculate the Basic Earnings per share for the year ended 30 November 2016 along with comparatives.

SOLUTIONS

Answer-1

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

Year 3

EPS = $\frac{36,900,000}{10,250,000}$

= 3.6 per share

(W-1) Weighted average number of shares during the period

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	9,000,000	x 4/12	3,000,000
New issued shares on 1 May	1,200,000		
1 May to 30 September	10,200,000	x 5/12	4,250,000
New issued shares on 1 October	1,800,000		
1 October to 31 December	12,000,000	x 3/12	3,000,000
			10,250,000

Answer-2

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)
Year 4
EPS = $\frac{20,000,000}{4,000,000}$

= 5 per share

2)
Year 5
EPS = $\frac{20,000,000}{5,000,000}$

= 4 per share

Year 4 (Restated)
EPS = 5 x Reciprocal of Bonus Fraction
= 5 x 4/5
= 4 per share

(W-1) Weighted average number of shares during the period

Date	Number of shares	Factor	Weighted average number
Opening Shares (1 January to 30 June)	4,000,000	x 6/12 x 5/4	2,500,000
Bonus shares issued on 1 July (4,000,000/4 x 1)	1,000,000		
	5,000,000	x 6/12	2,500,000
			5,000,000

(W-2)

	Bonus issue
Before	4
New	1
After	5

Answer-3

Earnings per share = Earnings attributable to ordinary shareholders during a period / Weighted average number of shares in issue during the period

Year 2

EPS = 85,500,000 / 3,562,500
= 24 per share

Year 1 (Restated)

EPS = 30 x Reciprocal of Bonus Fraction
= 30 x 2/3
= 20 per share

(W-1) Weighted average number of shares during the period

Date	Number of shares	Factor	Weighted average number
Opening Shares (1 January to 31 March)	2,000,000	x 3/12 x 3/2	750,000
Shares issued at full price on 31 March	500,000		
1 April to 30 June	2,500,000	x 3/12 x3/2	937,500
Bonus Share issued on 1 July, (2,500,000/2 x 1)	1,250,000		
(1 July to 31 December)	3,750,000	x 6/12	1,875,000
			3,562,500

(W-2)

	Bonus issue
Before	2
New	1
After	3

Answer-4

Earnings per share = Earnings attributable to ordinary shareholders during a period / Weighted average number of shares in issue during the period

Year 7

EPS = 17,468,750 / 4,479,167
= 3.9 per share

Year 6 (Restated)

EPS = 3.5 x Reciprocal of Right issue Bonus Fraction
= 3.5 x 40/50
= 2.8 per share

(W-1) Weighted average number of shares during the period

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	3,000,000	x 3/12 x 50/40	937,500
Right shares issued on 1 April (3,000,000 /2 x1)	1,500,000		
	4,500,000	x 4/12	1,500,000
	400,000		
Shares issued at full market price on 1 August	4,900,000	x 5/12	2,041,667
			4,479,167

(W-2) Right issue bonus Fraction

= Actual cum rights price / Theoretical ex rights price

= 50/40

Theoretical ex-rights price		Rs.
Before	(2 x Rs.50)	100
New	(1 x Rs. 20)	20
After	(3 x Rs.40 (bal))	120

Answer-5

Earnings per share = Earnings attributable to ordinary shareholders during a period / Weighted average number of shares in issue during the period

1)
20X7
EPS = 460,000 / 800,000
= 0.575 per share

2)
20X8
EPS = 550,000 / 900,000
= 0.611 per share

(W-1) Weighted average number of shares during 20X8

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	800,000	x 6/12	400,000
New Share Issued on 1 July	200,000		
	1,000,000	x 6/12	500,000
			900,000

Answer-6

Earnings per share = Earnings attributable to ordinary shareholders during a period / Weighted average number of shares in issue during the period

20X4

EPS = $\frac{2,208,000}{9,936,000}$

= 0.22 per share

(W-1) Weighted average number of shares during 20X4

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	8,280,000	x 6/12	4,140,000
New Share Issued on 30 June	3,312,000		
	11,592,000	x 6/12	5,796,000
			9,936,000

Answer-7

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)
20X7

EPS = $\frac{460,000}{1,000,000}$

= 0.46 per share

2)
20X8

EPS = $\frac{550,000}{1,200,000}$

= 0.458 per share

20X7 (Restated)

EPS = 0.46 x Reciprocal of Bonus Fraction

= 0.46 x 5/6

= 0.383 per share

(W-1) Weighted average number of shares during 20X8

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	1,000,000	x 6/12 x 6/5	600,000
Bonus Share Issued on 1 July (1,000,000/5 x 1)	200,000		
	1,200,000	x 6/12	600,000
			1,200,000

(W-2)

	Bonus issue
Before	5
New	1
After	6

Answer-8

Earnings per share = Earnings attributable to ordinary shareholders during a period / Weighted average number of shares in issue during the period

1)
20X2

EPS = 750,000 / 7,000,000
= 0.107 per share

2)
20X3

EPS = 1,150,000 / 8,000,000
= 0.144 per share

20X2 (Restated)

EPS = 0.107 x Reciprocal of Bonus Fraction
= 0.107 x 7/8
= 0.094 per share

(W-1) Weighted average number of shares during 20X3

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	7,000,000	x 8/12 x 8/7	5,333,333
Bonus Share Issued on 31 August (7,000,000/7 x 1)	1,000,000		
	8,000,000	x 4/12	2,666,667
			8,000,000

(W-2)

	Share issue
Before	7
New	1
After	8

Answer-9

20X1

EPS = 220,000 / 1,455,000
= 0.151 per share

(W-1) Weighted average number of shares during 20X1

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	1,000,000	x 3/12 x 6/5	300,000
New Shares Issued on 1 April	200,000		
	1,200,000	x 4/12 x 6/5	480,000
Bonus Shares Issued on 1 August(1,200,000/5 x1)	240,000		
	1,440,000	x 2/12	240,000
New Shares Issued on 1 October	300,000		
	1,740,000	x 3/12	435,000
			1,455,000

(W-2)

	Bonus issue
Before	5
New	1
After	6

Answer-10

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)
20X7

EPS = $\frac{460,000}{800,000}$

= 0.575 per share

2)
20X8

EPS = $\frac{550,000}{1,080,000}$

= 0.509 per share

20X7 (Restated)

EPS = 0.575 x Reciprocal of Right issue bonus Fraction
= 0.575 x 2.5/3
= 0.479 per share

(W-1) Weighted average number of shares during 20X8

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	800,000	x 6/12 x 3/2.5	480,000
Right shares issued on 1 July (800,000/2 x 1)	400,000		
	1,200,000	x 6/12	600,000
			1,080,000

(W-2) Right issue bonus Fraction

= $\frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$

= 3/2.5

Theoretical ex-rights price

		Rs.
Before	(2 x Rs.3)	6
New	(1 x Rs. 1.5)	1.5
After	(3 x Rs.2.5 (bal))	7.5

Answer-11

Earnings per share = Earnings attributable to ordinary shareholders during a period / Weighted average number of shares in issue during the period

1)
20X1

EPS = 320,000 / 4,000,000
= 0.08 per share

2)
20X2

EPS = 425,000 / 4,722,222
= 0.09 per share

20X1 (Restated)

EPS = 0.08 x Reciprocal of Right issue bonus Fraction
= 0.08 x 0.9/1
= 0.072 per share

(W-1) Weighted average number of shares during 20X2

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	4,000,000	x 6/12 x 1/0.9	2,222,222
Right shares issued on 1 July (4,000,000/4 x 1)	1,000,000		
	5,000,000	x 6/12	2,500,000
			4,722,222

(W-2) Right issue bonus Fraction

= Actual cum rights price / Theoretical ex rights price
= 1/0.9

Theoretical ex-rights price		Rs.
Before	(4 x Rs.1)	4
New	(1 x Rs.0.5)	0.5
After	(5 x Rs.0.9 (bal))	4.5

Answer-12

Earnings per share = Earnings attributable to ordinary shareholders during a period / Weighted average number of shares in issue during the period

1)
20X4

EPS = 14,000,000 / 14,000,000
= 1 per share

2)
20X5

EPS = 17,000,000 / 31,495,335
= 0.54 per share

0X4 (Restated)

PS	=	1 x Reciprocal of Right issue bonus Fraction
	=	1 x 2/9 x 19.29/20
	=	0.214 per share

V-1) Weighted average number of shares during 20X5

ate	Number of shares	Factor	Weighted average number
pening Shares on 1 January	14,000,000	x 3/12 x 9/2 x20/19.29	16,329,705
onus shares issued on 1 April(14,000,000/7x2)	4,000,000		
	18,000,000	x 3/12 x 20/19.29	4,665,630
ight shares issued on 1 July(18,000,000/6 x1)	3,000,000		
	21,000,000	x 6/12	10,500,000
			31,495,335

V-2) Right issue bonus Fraction

$$= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$$

= 20/19.29

ıeoretical ex-rights price		Rs.
efore	(6 x Rs.20)	120
ew	(1 x Rs. 15)	15
fter	(7 x Rs.19.29 (bal))	135

V-3)

	Bonus issue
efore	7
ew	2
fter	9

ıswer-13

	Rs
ofit (or loss) for the year (per the statement of comprehensive)	350,000
ss fixed preference dividends	(0)
rnings attributable to ordinary shareholders	350,000

the shares are redeemable the dividend of preference shares is already deducted as finance cost while iving at profit after tax of 350,000. Thus ignored.

rnings per share $= \frac{\text{Earnings attributable to ordinary shareholders}}{\text{Number of ordinary shares}}$

$= \frac{350,000}{(\frac{100,000}{0.5})}$

= 1.75 per share

Answer-14

20X6 (Restated)

EPS	=	0.95 x Reciprocal of bonus Fraction
	=	0.95 x 3/4
	=	0.71 per share

(W-2)

	Bonus issue
Before	3
New	1
After	4

Answer-15

		Rs
Profit (or loss) for the year (per the statement of comprehensive)	300,000-75,000	225,000
Less fixed preference dividends	(500,000 x 6%)	(30,000)
Earnings attributable to ordinary shareholders		195,000

Earnings per share $= \frac{\text{Earnings attributable to ordinary shareholders}}{\text{Number of ordinary shares}}$

$= \frac{195{,}000}{5{,}000{,}000}$

= 0.039 per share

Answer-16

Earnings per share $= \frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

20X7

EPS $= \frac{3{,}000{,}000}{3{,}366{,}667}$

= 0.89 per share

(W-1) Weighted average number of shares during 20X7

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	2,400,000	x 3/12 x 2/1.8	666,667
Right shares issued on 1 April(2,400,000/2x 1)	1,200,000		
	3,600,000	x 9/12	2,700,000
			3,366,667

(W-2) Right issue bonus Fraction

$= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$

= 2/1.8

Theoretical ex-rights price

		Rs.
Before	(2 x Rs.2)	4
New	(1 x Rs. 1.4)	1.4
After	(3 x Rs.1.8 (bal))	5.4

Answer-17

(a) The basic earnings per share for the year ended 31 December 20X6 has to be adjusted by a fraction of 5/6 is True as shown in working..

(b) For the calculation of 20X7 basic earnings per share, the number of shares in issue prior to the rights issue has to be adjusted by a rights fraction of 1.5/1.2 is True as shown in working.

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	850,000	x 4/12 x 6/5 x 1.5/1.2	425,000
Bonus shares issued on 1 May (850,000 /5 x 1)	170,000		
	1,020,000	x 4/12 x 1.5/1.2	425,000
Rights share issue on 1 September (1,020,000/5 x 2)	408,000		
	1,428,000	x 4/12	476,000
			1,326,000

(W-2)

	Bonus issue
Before	5
New	1
After	6

(W-2) Right issue bonus Fraction (Issued on 1 September)

$$= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$$

$$= 1.5/1.2$$

Theoretical ex-rights price

		Rs.
Before	(5 x Rs.1.5)	7.5
New	(2 x Rs. 0.45)	0.9
After	(7 x Rs.1.2 (bal))	8.4

Answer-18

a)

Earnings per share $= \frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

20X7

EPS $= \frac{5,950,000}{10,000,000}$

$=$ 0.595 per share

(W-1) Weighted average number of shares during 20X7

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000,000	x 12/12	10,000,000
			10,000,000

b)

Earnings per share = Earnings attributable to ordinary shareholders during a period / Weighted average number of shares in issue during the period

20X7

EPS = 5,950,000 / 12,500,000

= 0.476 per share

(W-1) Weighted average number of shares during 20X7

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000,000	x 9/12 x 5/4	9,375,000
Bonus shares issued on 1 October (10,000,000/4 x 1)	2,500,000		
	12,500,000	x 3/12	3,125,000
			12,500,000

(W-2)

	Bonus issue
Before	4
New	1
After	5

c)

Earnings per share = Earnings attributable to ordinary shareholders during a period / Weighted average number of shares in issue during the period

20X7

EPS = 5,950,000 / 10,416,666

= 0.571 per share

(W-1) Weighted average number of shares during 20X7

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000,000	x 7/12	5,833,333
New shares issued on 1 August (10,000,000/10 x 1)	1,000,000		
	11,000,000	x 5/12	4,583,333
			10,416,666

d)

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

20X7

EPS = $\frac{5{,}950{,}000}{11{,}333{,}333}$

= 0.525 per share

(W-1) Weighted average number of shares during 20X7

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000,000	x 9/12 x 4/3.75	8,000,000
Right shares issued on 1 October (10,000,000/3 x 1)	3,333,333		
	13,333,333	x 3/12	3,333,333
			11,333,333

(W-2) Right issue bonus Fraction

= $\frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$

= 4/3.75

Theoretical ex-rights price

		Rs.
Before	(3 x Rs.4)	12
New	(1 x Rs.3)	3
After	(4 x Rs.3.75(bal))	15

Answer-19

XYZ Limited Solution:

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)

2006

EPS = $\frac{1{,}100{,}000}{500{,}000}$

= 2.2 per share

2)

2007

EPS = $\frac{1{,}500{,}000}{591{,}667}$

= 2.54 per share

2006 (Restated)

EPS = 2.2 x Reciprocal of Right issue & Bonus Fraction

= 2.2 x 10/11

= 2 per share

3)

2008

EPS = $\frac{1{,}800{,}000}{600{,}000}$

= 3 per share

(W-1) Weighted average number of shares during 20[illegible]

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	500,000	x 2/12 x 11/10	91,667
Right shares issued on 1 March 2016 (500,000/5 x 1)	100,000		
	600,000	x 10/12	500,000
			591,667

(W-2) Right issue bonus Fraction (Issued on 1 March)

= Actual cum rights price / Theoretical ex rights price

= 11/10

Theoretical ex rights price

		Rs
Before	(5 x Rs 11)	55
New	(1 x 5)	5
After	(6 x Rs 10 (bal))	60

(W-3) Weighted average number of shares during 20[illegible]

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	600,000	x 12/12	600,000

Answer 20

HC Limited Solution:

Earnings per share = Earnings attributable to ordinary shareholders during a period / Weighted average number of shares in issue during the period

1)

2000

EPS = [illegible] / [illegible]

= [illegible] per share

2)

2001

EPS = [illegible] / [illegible]

= [illegible] per share

2000 (Restated)

EPS = [illegible] x Reciprocal of [illegible] Bonus Fraction

= [illegible]

= [illegible] per share

(W-1) Weighted average number of shares during 20[illegible]

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 July (1,[illegible] – [illegible])	[illegible]	x 6/12	[illegible]
New shares issued on 1 January 2001	[illegible]		
	[illegible]	x 6/12	[illegible]
			[illegible]

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(W-2) Calculation of earnings attributable to ordinary shareholders during 2000

		Rs.
Profit (or loss) for the year (per the statement of comprehensive)		6,500,000
Less fixed preference dividends	(500,000 x 10%)	(50,000)
Earnings attributable to ordinary shareholders		6,450,000

(W-3) Weighted average number of shares during 2001

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 July	1,000,000	x 6/12 x 6/5	600,000
Bonus shares issued on 1January (1000,000 x 20%)	200,000		
	1,200,000	x 6/12	600,000
			1,200,000

(W-4)

	Bonus issue
Before	100
New	20
After	120

(W-5) Calculation of earnings attributable to ordinary shareholders during 2001

		Rs.
Profit (or loss) for the year (per the statement of comprehensive)		(8,000,000)
Less fixed preference dividends	(500,000 x 10%)	(50,000)
Earnings attributable to ordinary shareholders		(8,050,000)

Answer-21

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

20X7

EPS = $\frac{5,000,000}{15,000,000}$

= 0.333 per share

20X6 (Restated)

EPS = 0.333 x Reciprocal of issue of Bonus Fraction

= 0.333 x 4/5

= 0.266 per share

(W-1) Weighted average number of shares during 20X7

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	12,000,000	x 9/12 x 5/4	11,250,000
Bonus shares issued on 30 September (12,000,000/4 x 1)	3,000,000		
	15,000,000	x 3/12	3,750,000
			15,000,000

(W-2)

	Bonus issue
Before	4
New	1
After	5

Answer-22

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)
20X6
EPS = $\frac{4,000,000}{12,000,000}$
= 0.333 per share

2)
20X7
EPS = $\frac{5,000,000}{13,500,000}$
= 0.37 per share

(W-1) Weighted average number of shares during 20X7

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	12,000,000	x 3/12	3,000,000
New shares issued on 31 March	2,000,000		
	14,000,000	x 9/12	10,500,000
			13,500,000

Answer-23

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)
20X6
EPS = 0.333 per share

2)
20X7
EPS = $\frac{5,000,000}{13,450,000}$
= 0.372 per share

20X6 (Restated)
EPS = 0.333 x Reciprocal of Right issue of Bonus Fraction
= 0.333 x 1.92/2
= 0.32 per share

(W-1) Weighted average number of shares during 20X7

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	12,000,000	x 6/12 x 2/1.92	6,250,000
Right shares issued on 30 June (12,000,000/5 x 1)	2,400,000		
	14,400,000	x 6/12	7,200,000
			13,450,000

(W-2) Right issue bonus Fraction (Issued on 30 June)

= Actual cum rights price / Theoretical ex rights price

= 2/1.92

Theoretical ex-rights price

		Rs.
Before	(5 x Rs.2)	10
New	(1 x 1.5)	1.5
After	(6 x Rs.1.92(bal))	11.5

Answer-24

Earnings per share = Earnings attributable to ordinary shareholders during a period / Weighted average number of shares in issue during the period

1)
2015

EPS = 5,860,000 / 97,000

= Rs. 60.41 per share

2)
2016

EPS = 5,860,000 / 55,642

= Rs. 105.32 per share

2015 (Restated)

EPS = 60.41 x 8/11 x5/8 x 8/2

= Rs. 109.84 per share

(W-1) Weighted average number of shares

Date	Number of shares	Factor	Weighted average number
Opening Shares on 01-12- 2015	97,000	x 2/12 x 2/8 x 8/5 x 11/8	8,892
New share issue on 01-02- 2016	5,000		
	102,000	x 2/12 x 2/8 x 8/5 x 11/8	9,350
Bonus shares issued on01-04- 2016 (102,000/8 x 3)	38,250		
	140,250	x 3/12 x 2/8 x 8/5	14,025
Share split on 30-06-2016 (140,250/ 5 x 3)	84,150		
	224,400	X 3/12 x 2/8	14,025
Share consolidation on 01-10-2016(224,400/8 x 6)	(168,300)		
	56,100	x 2/12	9,350
			55,642

(W-2)

	Bonus share	Share split	Share consolidation
Before	8	5	8
New/(Lost)	3	3	(6)
After	11	8	2

Answer-25

Earnings per share = $\dfrac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)

2015

EPS = $\dfrac{75,455,523}{870,000}$

= Rs. 86.73 per share

2)

2016

EPS = $\dfrac{85,997,220}{1,428,686}$

= Rs. 60.19 per share

2015 (Restated)

EPS = 86.73 x 10/3 x7/12 x 3/9

= Rs. 56.21 per share

(W-1) **Weighted average number of shares**

Date	**Number of shares**	**Factor**	**Weighted average number**
Opening Shares on 01-03- 2015	870,000	x 5/12 x 3/10 x 12/7 x 9/3	559,286
New share issue on 31-07- 2015	96,000		
	966,000	x 2/12 x 3/10 x 12/7 x9/3	248,400
Share split on30-09- 2015 (966,000/3 x 6)	1,932,000		
	2,898,000	x 2/12 x 3/10 x 12/7	248,400
Bonus share issue on 01-12-2015(2,898,000/7 x 5)	2,070,000		
	4,968,000	x 2/12 x 3/10	248,400
Share consolidation on 01-02-2016 (4,968,000/10 x 7)	(3,477,600)		
	1,490,400	x 1/12	124,200
			1,428,686

(W-2)

	Share split	Bonus	Share consolidation
Before	3	7	10
New/(Lost)	6	5	(7)
After	9	12	3

Answer - 26

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)
2015

EPS = $\frac{86,546,354}{9,870,556}$

= Rs. 8.77 per share

2)
2016

EPS = $\frac{83,665,463}{84,337,784}$

= Rs. 0.99 per share

2015 (Restated)

EPS = 8.77 x 1/7 x7/12 x 9/6

= Rs. 1.096 per share

(W-1) Weighted average number of shares

Date	Number of shares	Factor	Weighted average number
Opening Shares on 01-10- 2015	9,870,556	x 3/12 x 7/1 x 12/7 x 6/9	19,741,112
New share issue on 31-12- 2015	895,556		
	10,766,112	x 1/12 x7/1 x 12/7 x 6/9	7,177,408
Share Consolidation on 01-02- 2016 (10,766,112/9 x 3)	(3,588,704)		
	7,177,408	x 4/12 x 7/1 x 12/7	28,709,632
Bonus share issue on 01-06-2016(7,177,408/7x5)	5,126,720		
	12,304,128	x 3/12 x 7/1	21,532,224
Share Split on 30-08-2016(12,304,128/1x6)	73,824,768		
	86,128,896	x 1/12	7,177,408
			84,337,784

(W-2)

	Share Consolidation	Bonus	Share Split
Before	9	7	1
New/(Lost)	(3)	5	6
After	6	12	7

Answer-27

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)
2015

EPS = $\frac{4,535,431}{9,870,556}$

= Rs.0.46 per share

2)
2016
EPS = 5,564,541 / 12,301,507
= Rs. 0.45 per share

2015 (Restated)
EPS = 0.46 x 9/4 x3/7 x 5/6
= Rs. 0.37 Per share

(W-1) <u>Weighted average number of shares</u>

Date	Number of shares	Factor	Weighted average number
Opening Shares on 01-07- 2015	9,870,556	x 2/12 x 4/9 x 7/3 x 6/5	2,047,226
Share split on 30-08- 2015(9870556/5 x 1)	1,974,111		
	11,844,667	x 4/12 x 4/9 x 7/3	4,094,453
New shares on 31-12- 2015	35,000		
	11,879,667	x 3/12 x 4/9 x 7/3	3,079,914
Share split on 30-03-2016(11,879,667/3 x 4)	15,839,556		
	27,719,223	x 1/12 x 4/9	1,026,638
Share Consolidation on 01-05-2016(27,719,223/9 x 5)	(15,399,568)		
	12,319,655	x 2/12	2,053,276
			12,301,507

(W-2)

	Share Split	Share split	Share Consolidation
Before	5	3	9
New/(Lost)	1	4	(5)
After	6	7	4

Answer-28

Earnings per share = Earnings attributable to ordinary shareholders during a period / Weighted average number of shares in issue during the period

1)
2015
EPS = 580,200 / 97,000
= Rs.5.98 per share

2)
2016
EPS = 780,600 / 43,623
= Rs.17.89 per share

2015 (Restated)
EPS = 5.98 x 10.13/12 x8/2x 8/11
= Rs. 14.68 Per share

(W-1) **Weighted average number of shares**

Date	Number of shares	Factor	Weighted average number
Opening Shares on 01-12-2015	97,000	x 2/12 x 12/10.13 x 2/8 x 11/8	6,583
New shares on 01-02-2016	5,000		
	102,000	x 2/12 x 12/10.13 x 2/8 x11/8	6,923
Bonus shares on 01-04-2016 (102,000/8 x 3)	38,250		
	140,250	x 5/12 x 12/10.13 x 2/8	17,306
Share Consolidation on 01-09-2016 (140,250/8 x 6)	(105,188)		
	35,062	x 1/12 x 12/10.13	3,461
Right share on 01-10-2016 (35,062/5 x 3)	21,037		
	56,099	x 2/12	9,350
			43,623

(W-2)

	Bonus	Share Consolidation
Before	8	8
New/(Lost)	3	(6)
After	11	2

(W-3)

Theoretical ex-rights price

		Rs.
Before	(5 x Rs. 12)	60
New/(Lost)	(3 x Rs. 7)	21
After	(8 x (Bal.)Rs. 10.13)	81

CHAPTER-07
EARNINGS PER SHARE
ICAP PAST PAPERS

Question-1

The following information pertains to the financial statements of Home Dynamics Limited (HDL), a listed company, for the year ended 31 December 2016:

(i) Profit after tax for the year:

	Rs. in million
Profit from continuing operations – net of tax	765
Profit from discontinued operations – net of tax	155
Profit after tax	920

(ii) Shareholders' equity as on 1 January 2016 comprised of:

- 10 million ordinary shares of Rs. 10 each, having market value of Rs. 25 each.
- 4 million cumulative preference shares of Rs. 10 each entitled to a cumulative dividend at 10%.

(iii) On 31 March 2016, HDL announced 40% right shares to its ordinary shareholders at Rs. 25 per share. The entitlement date of right shares was 31 May 2016. The market price per share immediately before the announcement date and entitlement date was Rs. 28 and Rs. 32 respectively.

(iv) On 2 August 2016, HDL announced 20% bonus issue. The entitlement date of bonus shares was 31 August 2016.

(v) On 1 February 2017, the board of directors announced 20% cash dividend and 10% bonus issue being the final dividend to the ordinary shareholders and 10% cash dividend for preference shareholders.

Required:

Calculate basic earnings per share for inclusion in HDL's financial statements for the year ended 31 December 2016. Show all relevant calculations. (10)

[March-17, Q#1]

SOLUTIONS

Answer-1

	Continued operations	Discontinued operations
Earnings attributable to ordinary shareholders during a period (W-5)	761,000,000	155,000,000
Weighted average number of shares in issue during the period (W-1)	16,646,666	16,646,666
EPS	**45.71**	**9.31**

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000,000	x 5/12 x 16/15 x 120/100 x 110/100	5,866,666
Right shares issued on 31 May 2016 (10,000,000/100 x 40)	4,000,000		
	14,000,000	x 3/12 x 120/100 x 110/100	4,620,000
Bonus shares issued on 31 August 2016 (14,000,000/100 x20)	2,800,000		
	16,800,000	x 4/12 x 110/100	6,160,000
			16,646,666

(W-2) Right issue bonus Fraction (Issued on 31 May)

= Actual cum rights price / Theoretical ex rights price

= 32/30

= 16/15

Theoretical ex-rights price

		Rs.
Before	(100 x Rs.320)	3,200
New	(40 x Rs. 25)	1,000
After	(140 x Rs.30 (bal))	4,200

(W-3)

	Bonus issue
Before	100
New	20
After	120

(W-4)

	Bonus issue
Before	100
New	10
After	110

(W-5) Earnings attributable to ordinary shareholders during a period

		Rs. in million
Profit from continuing operations after tax		[illegible]
Less: Preference dividends on irredeemable shares	(4 x 10 x 10%)	[illegible]
Profit net of Preference dividends		[illegible]

CHAPTER-07
EARNINGS PER SHARE
ICAP QUESTION BANK

Question-1

Mr Hamad, currently owns 20 million shares in Aircon Ltd. He recently received the published financial statements of Aircon Ltd for the year ended 31 March 2016. Mr Hamad is not sure how the performance of the company during the year will affect the market value of the entity's shares but he is aware that the earnings per share statistics are often used by analysts in assessing the performance of listed companies. Extracts from these published financial statements and other relevant information are given below.

Statement of profit or loss for the period ended 31 March 2016

	2016	2015
	Rs.'m	Rs.'m
Revenue	18,000	15,300
Cost of sales	(11,340)	(9,180)
Gross profit	6,660	6,120
Operating expenses	(3,420)	(3,240)
Operating profit	3,240	2,880
Interest payable	(540)	(576)
Profit before tax	2,700	2,304
Taxation	(846)	(720)
Profit after tax	1,854	1,584

Statement of financial position as at 31 March 2016

	2016	2015
Assets	Rs.'m	Rs.'m
Intangible assets	5,400	-
Tangible assets	7,200	6,660
	12,600	6,660
Current Assets		
Inventory	2,340	1,800
Receivables	2,700	2,160
Cash in bank	180	162
	5,220	4,122
	17,820	10,782
Capital and Reserves		
Share Capital	2,700	900
Share Premium	4,860	900
Retained Earnings	1,620	1,206
	9,180	3,006
Current Liabilities		
Trade Payables	3,060	2,160
Taxation	900	756
Bank Overdraft	1,080	1,260
	5,040	4,176
15% Loan Note	3,600	3,600
	17,820	10,782

The following information is also relevant:

(i) The share capital of the company comprises Rs.1 equity shares only.

(ii) On 1 October 2015, the company made a rights issue to existing shareholders of two new shares for every one share held at a price of Rs.5.94 per share and paid issue cost of Rs.180,000.

(iii) The market price of shares immediately before the rights issue was Rs.6.30 per share.

(iv) No other changes took place in the equity capital of Aircon Ltd in the year ended 31 March 2016.

Required

(a) Compute EPS for the year and the comparative figures that will be included in the published financial statements of Aircon Ltd for the year ended 31 March 2016.

(b) Using the extracts you have been provided with, write a report to Mr Hamad identifying the key factors which led to the change in the EPS of Aircon Ltd since the year ended 31 March 2016.

(c) Comment on the relevance of the EPS statistics to shareholders.

[ICAP Question Bank 14.1]

SOLUTIONS

Answer-1

(a)

Earnings per share = Earnings attributable to ordinary shareholders during a period / Weighted average number of shares in issue during the period

2016

EPS = 1,854 / 1,818

= Rs.1.02 per share

2015 (Restated)

EPS = 1.76 x Reciprocal of Right issue bonus Fraction

= 1.76 x 6.06/6.30

= Rs.1.69 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Time factor	'Million' Weighted average number
Opening Shares on 1 April	900	x 6/12 x 6.30/6.06	468
Rights share issue on 1 October 2016 (900/1 x 2)	1,800		
	2,700	x 6/12	1,350
			1,818

(W-2) Right issue bonus Fraction (Issued on 1 October)

= Actual cum rights price / Theoretical ex rights price

= 6.30/6.06

Theoretical ex-rights price

		Rs.
Before	(1 x Rs.6.30)	6.30
New	(2 x Rs.5.94)	11.88
After	(3 x Rs.6.06(bal))	18.18

(W-3)

2015

EPS = 1,584 / 900

= Rs.1.76 per share

(b) **Report**

To: Mr Hamad
From: Management Accountant
Date: 15 April 2016

Subject: Evaluating the changes in EPS of Aircon Ltd.

The key factors which has led to changes in the EPS of Aircon Ltd. are as follows:

- **Revenue and profitability.** Revenue increased by Rs.2,700 million (15%) as compared to last year, but the gross profit and net profit ratios have not increased proportionately.

The gross profit percentage fell from 40% to 37% in 2016, while the net profit percentage remained constant at 10%.
Factors responsible for the decline might be due to the inability of the entity to maintain good profit margin. The more funds realised from the rights issue did not lead to any significant increase in return on capital employed which fell from 44% in 2015 to 25% in 2016.

The increase in share capital Rs.5,760 [10:(2,700 + 4,860) – 15: (900 + 900)] million of new finance was largely used to acquire intangible assets.
It is hoped that this asset will start generating substantial returns in the near future.
EPS has therefore fallen from Rs.1.69 in 2015 to Rs.1.01 in 2016.

Signed
Management Accountant

APPENDIX TO THE REPORT
The ratios that are relevant to discussion and evaluation of changes in EPS of Aircon Ltd are those that relate to profitability and return on capital employed.

TABLE OF RATIOS

Ratio	Formula	2016
Change in Revenue	$\frac{\text{Current Year – Previous year}}{\text{Current Year}} \times 100$	$\frac{18\,000-15\,300}{15\,300} \times 100$ = 18% increase

Ratio	Formula	2016	2015
Net profit after tax	$\frac{\text{Profit After Tax}}{\text{Net Sales}} \times 100 = ...\%$	$\frac{1\,854}{18\,000} \times 100 = 10\%$	$\frac{1\,584}{15\,300} \times 100 = 10\%$
GP ratio	$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$	$\frac{6\,660}{18\,000} \times 100 = 37\%$	$\frac{6\,120}{15\,300} \times 100 = 40\%$
Cost of sale ratio	$\frac{\text{Cost of sale}}{\text{Net sales}} \times 100 = ...\%$	$\frac{11\,340}{18\,000} \times 100 = 63\%$	$\frac{9\,180}{15\,300} \times 100 = 60\%$
Operating Expense ratio	$\frac{\text{Operating Expense}}{\text{Net sales}} \times 100 = ...\%$	$\frac{3\,420}{18\,000} \times 100 = 19\%$	$\frac{3\,240}{15\,300} \times 100 = 21\%$
Return on capital employed	$\frac{\text{Profit before interest \& tax}}{\text{Avg capital emplyed}} \times 100$	$\frac{3\,240}{9{,}180+3\,600} \times 100 = 25\%$	$\frac{2\,880}{3{,}006+3\,600} \times 100 = 44\%$
Asset turnover ratio	$\frac{\text{Net Sales}}{\text{Average Capital Employed}}$	$\frac{18\,000}{9{,}180+3\,600}$ = 1.41 times	$\frac{15\,300}{3\,006+3\,600}$ = 2.32 times
Interest to sales ratio	$\frac{\text{Interest payable}}{\text{Net sale}} \times 100$	$\frac{540}{18\,000} \times 100 = 3\%$	$\frac{576}{15\,300} \times 100 = 3.8\%$
Taxation to sales ratio	$\frac{\text{Taxation}}{\text{Net sale}} \times 100$	$\frac{846}{18\,000} \times 100 = 5\%$	$\frac{720}{15\,300} \times 100 = 5\%$

(C) Relevance of EPS to shareholders:

The EPS is used to compute the price earning (P/E) ratio, a major market indicator to determine how successful a company has been operating.

(i) The price earning figure is a multiple of the EPS. Better the P/E ratio better the company is.

(ii) Rising trend in EPS is a more accurate performance indicator than rising trend in profit after tax (because of considering only profit from continuing operations).

(iii) EPS is a measure of performance from the existing and potential investors' perspective.

(iv) EPS show the amount available to each ordinary shareholder thereby indicating the potential returns on individual investment.

(v) EPS is used to compare the activities of two entities in the same industry (however EPS has some limitations as well).

CHAPTER-7
IAS-33
MULTIPLE CHOICE QUESTIONS

01. Anum Limited had 1 million ordinary shares of Rs. 10 each in issue throughout the year ended 30 June 20X3. On 1 July 20X2 it had issued Rs. 2 million of 6% convertible debentures, each Rs. 100 of debenture is convertible into 8 ordinary shares on 1 July 20X6 at the option of the holder. Anum Limited had profit after tax for the year ended 30 June 20X3 of Rs.1,850,000. It pays tax on profits at 30%.
What was diluted EPS for the year ended 30 June 20X3?
(a) Rs. 1.67 (b) Rs. 1.85
(c) Rs. 1.61 (d) Rs. 1.70

02. Zahra Limited's basic EPS for the year ended 30 June 20X1 was Rs. 6 per share. Which of the following issue during the year during the year ended 30 June 20X2 would result in restated comparative basic EPS (for the year ended 20 June 20X1) of more than Rs. 6?
(a) Right issue
(b) Bonus issue
(c) Share split
(d) Share consolidation / Reverse share split

03. Hania Limited has correctly calculated its basic earnings per share (EPS) for the current year. Which of the following items need to be additionally considered when calculating the diluted EPS of Hania Limited for the year?
(i) A 1 for 5 rights issue of equity shares during the year at Rs. 12 when market price of equity shares was Rs. 18.
(ii) The issue during the year of a convertible debentures
(iii) Issue of directors' share options exercisable in three years' time
(iv) Equity shares issued during year as the purchase consideration for acquisition of plant & machinery
(a) All four (b) (i) and (ii) only
(c) (ii) and (iii) only (d) (iii) and (iv) only

04. Many analyst believe that the trend of earnings per share (EPS) is a more reliable indicator of underlying performance than the trend of net profit for the year.
Which of the following statements supports this view?
(a) Net profit can be manipulated by the choice of accounting policies but EPS cannot be manipulated in this way.
(b) EPS takes into account the additional resources made available to earn profit when new shares are issued for cash, whereas net profit does not.
(c) The disclosure of a diluted EPS figure is a forecast of the future trend of profit.
(d) The comparative EPS is restated where a change of accounting policy affects the previous year's profits.

05. At 1 January 20X8 Maria Limited had 5 million Rs. 10 equity shares in issue. On 1 June 20X8 it made a 1 for 5 rights issue at a price of Rs. 15. The market price of the shares before right issue was Rs. 18. Total earnings for the year ended 31 December 20X8 was Rs. 7.6 million.
What is basic EPS for the year ended 31 December 20X8?
(a) Rs.1.35 (b) Rs.1.36
(c) Rs.1.27 (d) Rs.1.06

06. Gulfishan Limited (GL) had profits after tax of Rs. 30 million in the year ended 31 December 20X7.
On 1 January 20X7, GL had 2.4 million ordinary shares in issue. On 1 April 20X7 it made a 1 for 2 rights issue at a price of Rs. 14 when the market price of Garfish's shares was Rs. 20 before right issue.
What is the basic EPS for the year ended 31 December 20X7?

(a)	Rs. 4.95	(b)	Rs. 8.90
(c)	Rs. 9.12	(d)	Rs. 9.26

07. On 1st January 20X4, Sameen Limited had 3 million ordinary shares in issue. On 1st June 20X4, Sameen Limited made a 1 for 3 bonus issue. On 30th September 20X4, Sameen Limited then issued a further 1 million shares at full market price. Sameen Limited had profits attributable to ordinary shareholders of Rs. 20 million for the year ended 31st December 20X4.
What is the basic EPS for the year ended 31st December 20X4?

(a)	Rs. 4.71	(b)	Rs. 4.29
(c)	Rs. 4.93	(d)	Rs. 5.22

08. During the year, Mariam Limited made a 1 for 3 rights issue at Rs. 16 when the market price was Rs. 22.The previous year's financial statements showed an earnings per share figure of Rs. 4.
There were no other issues of shares during the year.
What will the restated earnings per share figure be for comparative purposes in the current year financial statements?

(a)	Insufficient data for calculation	(b)	Rs. 3.73
(c)	Rs. 4.00	(d)	Rs. 4.29

09. Saba Limited has net profit for the year ended 30 June 20X5 of Rs. 10.5 million. Saba Limited has had 6 million shares in issue for many years. In the current year, Saba Limited has issued a convertible bond. It was issued at its nominal value of Rs. 2.5 million and carries an effective interest rate of 8%.
The bond is convertible in five years in 50 shares for each Rs. 100 of the bond. Saba Limited pays tax at a rate of 30%
What is the Basic EPS and Diluted EPS for the year ended 30 June 20X5?
(a) Basic EPS Rs. 1.70 and Diluted EPS Rs. 1.50
(b) Basic EPS Rs. 1.75 and Diluted EPS Rs. 1.70
(c) Basic EPS Rs. 1.70 and Diluted EPS Rs. 1.55
(d) Basic EPS Rs. 1.75 and Diluted EPS Rs. 1.47

10. Alia Limited's (AL) financial statements show a profit for the year of Rs. 20 million. On 1 January 20X5, AL had 4 million shares in issue.
There were no new issues of shares in the year, but there were 1 million outstanding options to buy shares for Rs. 30 each. For the year to 31 December 20X5, the average market value of AL's shares was Rs. 50.
What is AL's Diluted EPS for the year ended 31 December 20X5?

(a)	Rs. 3.00	(b)	Rs. 4.35
(c)	Rs. 4.55	(d)	Rs. 4.00

11. Which of the following statements in relation to the term 'dilution' is/are true or false, as per IAS 33 Earnings per share?
1) A reduction in earnings per share is an example of dilution.
2) A reduction in loss per share is an example of dilution.
(a) Both statements are false
(b) Statement 2 is true and statement 1 is false
(c) Statement 1 is true and statement 2 is false
(d) Both statements are true

12. Which TWO of the following items must be disclosed, as per IAS 33 Earnings per share?
    - (a) Forecast earnings per share for the following financial year
    - (b) A five year trend analysis of earnings per share
    - (c) The weighted average number of ordinary shares used to calculate earnings per share
    - (d) The earnings figures used in calculating basic and diluted earnings per share

13. Which of the following statements is/are true or false, according to IAS 33 Earnings per share?
    1) Earnings per share amounts should not be presented if they are negative, i.e. losses per share.
    2) Earnings per share amounts calculated for discontinued operations should be presented.
    - (a) Both statements are false
    - (b) Statement 1 is false and statement 2 is true
    - (c) Statement 1 is true and statement 2 is false
    - (d) Both statements are true

14. **Pareesa Limited issued new ordinary shares for cash at full market price and also made a 1 for 8 bonus issue.**
    Are the following statements true or false, according to IAS 33 Earnings per share?
    1) **New shares issued as a result of bonus issue should be time apportioned from their date of issue.**
    2) **New shares issued for cash at full market price should be time apportioned from their date of issue.**
    - (a) **Both statements are false**
    - (b) **Statement 1 is false and statement 2 is true**
    - (c) **Statement 1 is true and statement 2 is false**
    - (d) **Both statements are true**

15. Salma Limited (SL) is a company listed on a Pakistan Stock Exchange. Given below is an extract from its statement of comprehensive income for the year ended 31 December 20X7.

	Rs.
Profit before tax	5,700,000
Tax expense	(1,500,000)
Profit after tax	4,200,000

SL paid during the year an ordinary dividend of Rs. 400,000 and a dividend on its redeemable preference shares of Rs. 500,000. These have been correctly accounted for in the financial statements.

SL had ordinary share capital of Rs. 2,000,000 (Rs. 10 each) throughout the year and authorised share capital of Rs. 10,000,000 (Rs. 10 each).

What is basic EPS for the year ended 31 December 20X7?

- (a) Rs. 21
- (b) Rs. 19
- (c) Rs. 38
- (d) Rs. 42

16. Shaista Limited is a company listed on Pakistan Stock Exchange. Its financial statements for the year ended 31 December 20X7 showed EPS of Rs. 8.5 per share.

On 1 July 20X8 Shaista Limited made a 1 for 3 bonus issue.

What figure for the 20X7 earnings per share will be shown as comparative information in the financial statements for the year ended 31 December 20X8?

- (a) Rs. 2.13
- (b) Rs. 2.55
- (c) Rs. 6.38
- (d) Rs. 2.83

17. Simba Limited is a listed company. At 31 December 20X7, it had ordinary share capital of Rs. 2,000,000 (Rs. 10 each). Profit before tax for the year was Rs. 500,000 and the tax charge was Rs 125,000

What is Simba Limited's basic EPS for the year?

(a) Rs. 2.50
(b) Rs. 3.75
(c) Rs. 2.58
(d) Rs. 1.88

18. Muntaha Limited (ML) is listed on Pakistan Stock Exchange. During the year ended 31 December 20X7, the company had 5 million ordinary shares of Rs.10 each and 500,000 6% irredeemable preference shares of Rs. 10 in issue. The profit after tax for the year 20X7 was Rs. 6,000,000.

What is ML's basic EPS for the year?

(a) Rs. 1.14
(b) Rs. 1.09
(c) Rs. 1.60
(d) Rs. 1.20

19. Mansha Limited had 100,000 equity shares in issue on 1 January 20X7. On 1 July 20X7 it issued 20,000 new shares by way of a 1 for 5 bonus issue. On 1 October 20X7 it issued 28,000 new shares for cash at full market price.

What is weighted average number of shares for calculation of basic EPS?

(a) 100,000 shares
(b) 117,000 shares
(c) 148,000 shares
(d) 127,000 shares

20. Which of the following need not be adjusted in profit after tax, for calculation of basic EPS?

(a) Redeemable preference share dividends
(b) Irredeemable preference share dividends
(c) Ordinary (final) dividends
(d) Ordinary (interim) dividends

MCQS SOLUTIONS

01.	(a)	Basic EPS = Rs. 1,850,000 / 1,000,000 shares = Rs. 1.85 Incremental earnings = Rs. 2,000,000 x 6% x 70% = Rs. 84,000 Incremental shares = Rs. 2,000,000 / 100 x 8 shares = 160,000 shares Diluted EPS = [Rs. 1,850,000 + 84,000] / [1,000,000 + 160,000 shares] = Rs. 1.67
02.	(d)	Share consolidation/ reverse share split would result in lower number of denominator (shares) leading to higher comparative EPS than reported earlier. All other issues would result in higher number of shares (denominator) resulting in lower comparative EPS than reported earlier.
03.	(c)	The convertible loan note and the share options should be taken into account when calculating diluted EPS. Other items would have been incorporated in calculation of basic EPS already.
04.	(b)	EPS takes into account the additional resources made available to earn profit whennew shares are issued for cash, whereas net profit does not.
05.	(a)	TERP = [(5x18) + (1x15)] / (5+1) = Rs. 17.5 per share Right issue bonus fraction = 18 / 17.5 Weighted average shares January to May — 5 million x 5/12 x 18 /17.5 = 2.14 million June to December — 6 million x 7/12 = 3.50 million Total = 5.64 million Basic EPS = Rs. 7.6 million / 5.64 million shares = Rs. 1.35
06.	(b)	TERP = [(2x20) + (1x14)] / (2+1) = Rs. 18 per share Right issue bonus fraction = 20 / 18 Weighted average shares January to March — 2.4 million x 3/12 x 20 /18 = 0.67 million April to December — 3.6 million x 9/12 = 2.70 million Total = 3.37 million Basic EPS = Rs. 30 million / 3.37 million shares = Rs. 8.90
07.	(a)	Bonus issue fraction = 4 / 3 Weighted average shares January to May — 3 million x 5/12 x 4 /3 = 1.67 million June to September — 4 million x 4/12 = 1.33 million October to December — 5 million x 3/12 = 1.25 million Total = 4.25 million Basic EPS = Rs. 20 million / 4.25 million shares = Rs. 4.71
08.	(b)	TERP = [(3x22) + (1x16)] / (3+1) = Rs. 20.5 per share Right issue bonus fraction = 22 / 20.5 Basic EPS (restated comparative) = Rs. 4 x 20.5 / 22 = Rs. 3.73
09.	(d)	Basic EPS = Rs. 10.5 million / 6 million shares = Rs. 1.75 Incremental earnings = Rs. 2.5 million x 8% x 70% = Rs. 0.14 millionIncremental shares = Rs. 2.5 million / 100 x 50 = 1.25 million shares Diluted EPS = (Rs. 10.5m + 0.14m) / (6m + 1.25m shares) = Rs. 1.47

10.	(c)	Free shares = 1,000,000 x (50 – 30) / 50 = 400,000 shares Diluted EPS = Rs. 20,000,000 / (4,000,000 + 400,000 shares) = Rs. 4.55
11.	(c)	A reduction in earnings per share is an example of dilution, but a reduction in lossper share is an example of anti-dilution.
12.	(c) & (d)	The earnings figures and the weighted average number of shares are required tobe disclosed. Future forecasts and trend analysis are not required.
13.	(b)	EPS is to be presented even if negative (i.e. loss per share), so statement 1 isfalse. EPS for discontinued operations should be presented separately as well, so statement 2 is true.
14.	(b)	Bonus shares provide no additional consideration to the issuer, so they are not time-apportioned.
15.	(a)	The redeemable preference share dividend is recognised as a finance cost and deducted at arriving at profit before tax. Basic EPS = Rs. 4,200,000 / 200,000 shares = Rs. 21
16.	(c)	Bonus issue fraction = 4 / 3 Rs. 8.5 per share x 3 / 4 = Rs. 6.38 per share
17.	(d)	Basic EPS = (Rs. 500,000 – Rs. 125,000) / 200,000 shares = Rs. 1.88
18.	(a)	Basic EPS = (Rs. 6,000,000 – (6% × Rs. 5,000,000)) / 5,000,000 shares = Rs. 1.14
19.	(d)	Bonus issue is not time-apportioned while issue at full market price is time-apportioned. The weighted average is 100,000 + 20,000 + (28,000 × 3/12) = 127,000.
20.	(a)	Redeemable preference dividends will already have been removed from net profit when arriving at this figure in a profit or loss account. Therefore, this adjustment is not necessary.

IAS 7: Statement of Cash Flows

9

LO 1	PREPARING CASH FLOW USING INDIRECT METHOD
LO 2	PREPARING CASH FLOW USING DIRECT METHOD

LO1: PREPARING CASH FLOW USING INDIRECT METHOD

Cash flow from Operating Activities

Profit/(loss) before tax
Adjustments for:
Depreciation / Amortization
(Gain)/loss on sale of fixed assets
(Gain)/loss on sale of long term investments
Interest income/investment income
Interest expense
Operating cash flow before working capital changes
Adjustment for working capital changes
(Increase)/decrease in current assets
(Increase)/decrease in inventories
(Increase)/decrease in trade receivable (net)/bill receivable
(Increase)/decrease in prepayments
(Increase)/decrease in stationery/loose tools/office supplies etc.
Increase/(Decrease) in current liabilities
Increase/(decrease) in creditors/bills payable
Increase/(decrease) in accrued expenses
Working capital changes
Cash generated from operations
Less:
Interest paid
Income tax paid
Dividend paid
Net Cash from operating activities **A**

Cash flow from Investing Activities

Purchase of non-current assets
Sale proceeds from disposal of fixed assets
Purchase of long term investment
Sale proceeds of long term investments
Interest received
Net Cash from investing activities **B**

Cash flow from Financing Activities

Proceed from issue of share capital (including difference in share premium a/c)
Long term loan raised/repaid
Net cash from financing activities **C**
Net increase in cash and cash equivalents **(A+B+C)**
Add: cash and cash equivalents at beginning of period (W-1)
Cash and cash equivalents at end of period (W-1)

(W-1) Cash and cash equivalents

	2011	2010
Bank		
Cash		
Short term investment		
- Short term running finance/short term loan		
- Bank overdraft		

Following accounts must be prepared in indirect method:

1. Share capital
2. Share premium
3. Retained earning
4. Dividend payable
5. Long term loan a/c
6. Property, plant and equipment
7. CWIP
8. Disposal account
9. Long term investment (and Entry of disposal of long term investment)
10. Income tax expense
11. Interest expense

LO2: PREPARING CASH FLOW USING DIRECT METHOD

Cash flow from Operating Activities

Cash received from customers	(Note 1)	
Cash paid to creditors/suppliers	(Note 2)	
Cash paid for expenses	(Note 3)	
Less:		
Interest paid	(Note 4)	
Income tax paid		
Dividend paid		
Net Cash from operating activities	A	

Cash flow from Investing Activities

Purchase of non-current assets		
Sale proceeds from disposal of fixed assets		
Purchase of long term investment		
Sale proceeds of long term investments		
Interest received		
Net cash from investing activities	B	

Cash flow from Financing Activities

Proceed from issue of share capital (including difference in share premium a/c)		
Long term loan raised/repaid		
Net cash from financing activities	C	
Net increase in cash and cash equivalents	(A+B+C)	
Add: cash and cash equivalents at beginning of period	(W-1)	
Cash and cash equivalents at end of period	(W-1)	

(W-1) Cash and cash equivalents

	2011	2010
Bank		
Cash		
Short term investment		
- Short term running finance/short term loan		
- Bank overdraft		
	-	-

Note-1 For calculating the cash received from debtors, debtors account as below will be prepared.

Dr.	Debtors account		Cr.
Op.	xxx	Cash and bank (bal.)	xxx
Sales (cash + credit)	xxx	cl.	xxx

Note-2 For calculating the cash payments to creditors, creditor account as below will be prepared.

Dr.	Creditor account		Cr.
		Op.	xxx
Cash and bank (bal.)	xxx	Purchases (cash + credit)	xxx
cl.	xxx		

Note-3 For calculating the cash paid, expenses account as below will be prepared.

Dr.	Expense account		Cr.
b/d prepayments	xxx	b/d accruals	xxx
b/d stationery/office Supplies etc	xxx		
Cash and bank (bal.)	xxx	P/L (N-3.1)	
		c/d prepayments	xxx
c/d accruals	xxx	c/d stationery/office Supplies etc	xxx

(N-3.1) (Admin expenses + selling expenses – depreciation – loss on sale of fixed asset and loss on sale of long term investment)

Note-4 For calculating the cash paid, interest expense a/c as below will be prepared.

Dr.	Interest expense		Cr.
		Opening payable	xxx
Cash and bank (bal.)	xxx	P/L (expense for the year)	xxx
Closing payable	xxx		

PRACTICE QUESTIONS

Question-1

Profit and loss for the year ended December 31, 2007

		2007
Sales		50,000
Less:		
Opening stock	3,000	
Purchases	15,000	
Closing Stock	(4,000)	
Cost of sales		(14,000)
Gross profit		36,000
Less: Expenses		
Salaries	4,000	
Rent expense	2,000	
Advertisement expense	15,000	
Provision for doubtful debt	400	
Depreciation	6,550	
Interest expense	800	
		(28,750)
Profit for the year		7,250

Balance sheet as on December 31

	2007	2006
Assets		
Fixed assets	50,000	35,000
Less: Accumulated depreciation	(13,870)	(7,320)
	36,130	27,680
Long term investments	7,000	5,000
Current assets		
Stock	4,000	3,000
Debtors	11,000	8,000
Less: Provision for doubtful debt	(800)	(400)
Short term investment	10,000	5,000
Prepayments	1,600	2,000
Cash	600	1,200
Bank (account 1)	3,000	700
	29,400	19,500
	72,530	52,180
Capital and Liabilities		
Capital		
Capital account	48,130	30,080
Non Current Liabilities		
Loan	10,000	9,000

Current Liabilities		
Creditors	7,000	8,000
Bank overdraft (account 2)	3,000	1,000
Interest payable	400	800
Accruals	4,000	3,300
	14,400	13,100
	72,530	52,180

Required:

A. Prepare cash flow statement using indirect method.

B. Calculate cash flow from operating activities using direct method. **(16)**

Question-2

Profit and loss for the year ended December 31, 2009

	2009
Sales	400,000
Less:	
Op. stock	25,000
Purchases	130,000
Cl. Stock	(27,000)
Cost of sales	(128,000)
Gross profit	272,000
Less: Expenses	
Salaries	25,000
Rent expense	35,000
Advertisement expense	28,000
Provision for doubtful debt	2,000
Depreciation	14,850
Interest expense	7,500
	(112,350)
Profit for the year	159,650

Balance sheet as on December 31

Assets	2009	2008
Fixed assets	825,000	650,000
Less: Accumulated depreciation	(40,330)	(25,480)
	784,670	624,520
Long term investments	150,000	120,000
Current assets		
Stock	27,000	25,000
Debtors	47,000	85,000
Less: Provision for doubtful debt	(9,480)	(7,480)
Short term investment	15,000	10,000
Prepayments	2,000	4,500
Cash	3,400	6,000
Bank (account 1)	5,800	4,500
	90,720	127,520
	1,025,390	872,040

Balance sheet as on December 31

	2009	2008
Assets		
Fixed assets	1,745,000	1,540,345
Less: Accumulated depreciation	(460,520)	(425,680)
	1,284,480	1,114,665
Long term investments	325,000	315,400
Current assets		
Stock	205,000	175,000
Debtors	135,900	225,000
Less: Provision for doubtful debt	(28,850)	(16,850)
Short term investment	12,000	25,000
Prepayments	7,400	8,500
Cash	9,500	7,500
Bank (account 1)	21,000	17,000
	363,950	441,150
	1,973,430	**1,871,215**
Capital and Liabilities		
Capital		
Capital account	1,110,830	1,251,615
Non Current Liabilities		
Loan	450,000	350,000
Current Liabilities		
Creditors	345,000	225,000
Bank overdraft (account 2)	55,000	35,000
Interest payable	3,500	2,500
Accruals	9,100	7,100
	412,600	269,600
	1,973,430	**1,871,215**

Additional information

1. Drawings were made amounting to Rs. 553,985
2. Part of fixed assets costing Rs. 225,000 was sold for Rs. 120,000. Accumulated depreciation of the asset was Rs. 25,000
3. Investment costing Rs. 50,000 was sold for Rs. 70,000.

Required:

A. Prepare cash flow statement using indirect method.

B. Prepare cash flow from operating activities using direct method. **(14)**

Question-5

Profit and loss for the year ended December 31, 2007

		2007
Sales		40,000
Less:		
Op. stock	4,000	
Purchases	13,000	
Cl. Stock	(2,000)	
Cost of Sales		(15,000)
Gross profit		25,000

Less: Expenses	
Salaries	2,000
Rent expense	3,000
Advertisement expense	8,000
Provision for doubtful debt	200
Depreciation	4,745
Net loss on sale of assets	1,000
Loss on sale of investments	800
Interest expense	600
	(20,345)
Profit for the year	4,655

Balance sheet as on December 31

Assets	2007	2006
Fixed assets	30,000	20,000
Less: Accumulated depreciation	(6,000)	(4,000)
	24,000	16,000
Long term investments	6,000	4,000
Current assets		
Stock	2,000	4,000
Debtors	9,000	6,000
Less: Provision for doubtful debt	(800)	(600)
Short term investment	200	100
Prepayments	800	1,000
Cash	300	600
Bank (account 1)	3,000	700
	14,500	11,800
	44,500	**31,800**
Capital and Liabilities		
Capital		
Capital account	29,300	18,100
Non current liabilities		
Loan	5,000	4,000
Current Liabilities		
Creditors	5,000	6,000
Bank overdraft (account 2)	1,000	-
Interest payable	200	400
Accruals	4,000	3,300
	10,200	9,700
	44,500	**31,800**

Other information:

1. Drawings during the period amounted to Rs.10,000
2. One-fourth of opening investments were sold during the year.
3. Loan amounting to Rs.3,000 is raised.
4. Loss on sale of assets comprised of the following:

Date of purchase	Date of sale	Cost	Gain/(loss)

Asset 1	1.1.2004	30.6.2007	3,000	500
Asset 2	1.1.2005	30.6.2007	4,000	(1,450)
Asset 3	1.3.1995	30.6.2007	1,000	(50)
				(1,000)

Rate of depreciation is straight line using 10% per annum.
All assets have residual value of 10% of cost.

Required:

A. Prepare cash flow statement using indirect method.

B. Prepare cash flow statement using direct method (only operating activities).

Question-6

Following is the Balance Sheet of Mr. Pure Water as on June 30, 2002:

	2002	2001
	(Rs. in '000')	
FIXED ASSETS		
Tangible fixed assets	399	320
Intangible assets	263	210
Long terms investments	-	26
CURRENT ASSETS		
Stock in trade	158	107
Trade debtors	410	331
Investment	53	-
Cash in hand	2	1
	623	439
	1285	995
CAPITAL AND LIABILITIES		
Capital	642	517
Non current liabilities		
Long term loans	179	53
CURRENT LIABILITIES		
Trade creditors and accrued liabilities	464	425
	464	425
	1,285	995

Extract of Profit & Loss Account for the year ended June 30, 2002:

	Rs. in 000
Operating Profit	221
Interest income	26
	247
Interest expense	(79)
Profit	168

The following additional information is available:

(a) The proceeds of the sale of Long Term Investments amounts to Rs. 32,000.

(b) Fixture and fittings, with an original cost of Rs. 89,000 and book value of Rs. 42,000 were sold for Rs. 32,000 during the year.

(c) The following information is available for fixed assets:

	2002	2001
	(Rs. in '000')	
Cost	756	625
Accumulated Depreciation	(357)	(305)
Net Book Value	399	320

(d) Drawings amounted to Rs. 105,000.

Required: Prepare Cash Flow Statement for the year ended June 30, 2002. **(15)**

Question-7

Following is the abridged balance sheet of Mr. Azam as at June 30, 2006.

	2006	2005
	(Rs. in '000')	
Furniture, machine and computer	10,500	10,000
Vehicle	1,200	1,000
Short term investments	750	500
Stocks	1,290	1,000
Trade receivables (net of provisions)	450	400
Advances and deposits	200	200
Cash and bank balances	160	100
Bank overdraft	(400)	(200)
Creditors and other liabilities	(2,730)	(1,900)
Interest payable	(20)	-
Net Assets	11,400	11,100
Capital	11,400	11,100

The following additional information is also available:

(i) Accounting profit is Rs. 3,000,000.

(ii) Depreciation on all assets for the year is Rs. 750,000.

(iii) Provision for doubtful debts at the end of the year amounted to 5% of closing balance of trade receivables. The opening balance of the provision was NIL.

(iv) Markup paid during the year amounted to Rs. 500,000.

(v) An old machine having book value of Rs. 500,000 was exchanged with a new machine costing Rs. 950,000. The company paid Rs. 350,000 as the difference. No other fixed asset was disposed of during the year.

(vi) Vehicle is depreciated at 35% of book value.

Required:

Prepare a cash flow statement under 'indirect method' **(15)**

Question-8

Prepare a cash flow statement for Lee Ltd for the year ended 31 December 20X4 using the in-direct method. (12)

Profit and Loss Account for the year ended 31 December 20X4

	Rs.	Rs.
Sales		6,500
Less Cost of goods sold		(3,000)
Gross profit		3,500
Less Expenses		
Wages	2,000	
Other costs	600	
Depreciation	500	
Interest	100	(3,200)
Profit for the year		300
Dividend		(50)
Retained profit		250

Balance Sheet as at December 31

	20X4		20X3	
	Rs.	Rs.	Rs.	Rs.
Fixed assets at cost		4,500		3,800
Less Accumulated depreciation		2,300		1,800
Net book value		2,200		2,000
Current Assets				
Stock	400		500	
Trade debtors	150		200	
Cash	200	750	100	800
Current Liabilities				
Trade creditors	325		300	
Accrued wages	25	(350)	50	(350)
		2,600		2,450
Financed by:				
Loan		900		1,000
Ordinary share capital		1,000		1,000
Retained earnings		700		450
		2,600		2,450

Question-9

From the following profit and loss and balance sheet information, prepare a cash flow statement using the indirect method. (12)

Profit and Loss Account for the year ended 31 December 20X4

	Rs. in '000'	Rs. in '000'
Sales		10,000
Cost of goods sold		(6,000)
Gross profit		4,000
Less: Expenses		
Depreciation	600	
Interest	150	
Other expenses	2,100	(2,850)
Profit for the year before tax		1,150
Tax		(200)
Profit for the year after tax		950
Dividend		(150)
Retained profit		800

Balance Sheet as at 31 December

	20X4		20X3	
	Rs.	Rs.	Rs.	Rs.
Fixed assets at cost		6,000		6,000
Less Accumulated depreciation		3,000		2,400
Net book value		3,000		3,600
Current Assets				
Stock	500		450	
Trade debtors	200		250	
Cash	1,610	2,310	150	850
Less Current Liabilities				
Trade creditors	310		300	
Taxation	200	(510)	150	(450)
		4,800		4,000
Financed by:				
Ordinary share capital		2,000		2,000
Retained earnings		2,800		2,000
		4,800		4,000

Question-10

FELIX Limited is a technology company that has produced the following financial statements for the year ended 31 December 2012.

Felix Limited
Statement of Profit or Loss for the year ended 31 December 2012

	Rs.in'000'
Revenue	351
Cost of sales	(232)
Gross profit	119
Other income	16
Administration	(46)
Distribution	(27)
Operating profit	62
Interest payable	(18)
Profit before taxation	44
Taxation	(17)
Profit after tax	27

Felix Limited
Statement of Financial Position as at 31 December 2012

	2012		2011	
	Rs.in'000'	Rs.in'000'	Rs.in'000'	Rs.in'000'
Assets				
Non-current assets				
Property, plant & equipment		2,140		1,970
Current assets				
Inventories	89		67	
Trade Receivables	72		98	
Prepayments	21		14	
Bank	38	220	35	214
		2,360		2,184

Equity & Liabilities				
Share capital and reserves		1,015		
Share capital (Rs.1 shares)		60		970
Share premium		427		55
Profit and loss		1,502		421
				1,446
Non-Current Liabilities		690		
Long term loans				510
Current liabilities				
Trade Payables	110		141	
Accruals	23		31	
Corporation tax	35	168	56	228
		2,360		2,184

The following additional information is also available:

1. The net book value of non-current assets is arrived at as follows:

	2012 Rs.in'000.	2011 Rs.in'000.
Property, plant & equipment at cost	2,590	2,470
Accumulated depreciation	(450)	(500)
	2,140	1,970

2. Accruals include the following amounts in relation to interest charges at year end:

	2012 Rs.in'000.	2011 Rs.in'000.
Amount owing at year end	12	17

3. During the year an asset which cost Rs. 92,000 was sold for Rs. 31,000. The asset was depreciated by Rs. 77,000 at the date of sale.
4. Investments sold during the year were sold at par value. No new investments were acquired.
5. The ordinary dividend declared and paid during the year was Rs. 21,000.
6. Insurance of Rs. 12,000, paid for the quarter ending 31 March 2013, was included in administration costs.

Required

Prepare the Statement of Cash Flows for Felix Limited for the year to 31 December 2012. (16)

Question-11

The Statement of Financial Position, Statement of Changes in Equity and other relevant information of FRANCHISE Limited, for the year ended 31 December 2012, are as follows:

Statement of Financial Position as at 31 December 2012

	2012		2011	
	Rs.	Rs.	Rs.	Rs.
Assets				
Non-current assets	332,550		180,800	
Investments at cost	130,000	462,550	130,000	310,800
Current assets				
Inventories	132,420		156,780	
Trade receivables	142,560		92,360	
Prepayments	21,800	296,780	6,300	255,440
Total assets		759,330		566,240

Equity And Liabilities				
Capital and reserves				
Ordinary shares		220,000		160,000
Share premium		15,000		0
Retained earnings		155,380		133,190
		390,380		293,190
Non-current liabilities				
Debentures		135,000		86,500
Current liabilities				
Trade payables	95,340		83,260	
Accrued expenses	19,360		12,440	
Bank overdraft	56,500		42,600	
Corporation tax	62,750	233,950	48,250	186,550
		759,330		566,240

Additional information:

1. The Statement of Profit and Loss includes the following charges for the year:

	2012 Rs.	2011 Rs.
Interest	18,500	9,400
Taxation	23,000	18,450
Depreciation	30,000	26,700

There was no interest owing at year end.

2. The company disposed of plant and equipment during the year with a net book value of Rs.35,000. Proceeds from the sale amounted to Rs. 50,000.
3. The ordinary dividend declared and paid during the year was Rs. 27,000.

Required

Prepare a Statement of Cash Flows for Franchise Limited for the year to 31 December 2012 in accordance with IAS 7 *Statement of Cash Flows*.

(12)

Question-12

Junaid Janjua Ltd has provided you the following balance sheet and income statement.

Balance Sheet as on December 31, 2010

	2010 Rs	2009 Rs.
Cash	145,000	32,000
Trade receivables	280,000	104,000
Long-term investments	220,000	170,000
Inventory	424,000	200,000
Prepayments	38,000	43,000
Land	1,810,000	2,500,000
Building	2,800,000	2,300,000
Accumulated depreciation	(890,000)	(720,000)
Equipment	1,200,000	1,150,000
Accumulated depreciation	(380,000)	(350,000)
Total assets	**5,647,000**	**5,429,000**

Trade payables	158,000	263,000
Expenses Payable	40,000	24,000
Short-term loans	580,000	580,000
Long-term loans	985,000	1,160,000
Share Capital	2,482,000	1,518,000
Retained earnings	1,402,000	1,884,000
Total liabilities and equity	**5,647,000**	**5,429,000**

Income Statement for the year ended December 31, 2010

Sales revenue		9,280,000
Cost of goods sold		(6,199,000)
Gross profit		**3,081,000**
Less: Operating expenses		
Selling expenses	634,000	
Administrative expenses	1,348,000	
Other expense (Loss on sale of equipment)	15,000	
Depreciation expenses	230,000	
		(2,227,000)
Add: other incomes		
- Gain on sale of land	64,000	
- Gain on sale of long term investment	32,000	
		96,000
Net income		**950,000**

Notes:

(a) Long term investments costing Rs. 100,000 were sold during the year.

(b) Depreciation charged during the year on equipment amounted to Rs. 60,000. Equipment having a book value of Rs. 75,000 was sold during the year.

(c) Dividend amounted to Rs. 1,432,000.

Required:

A. Prepare a cash flow statement for the year ended December 31, 2010(from indirect method)

B. Prepare a cash flow statement for the year ended December 31, 2010 from direct method (only Operating cash flow)

Question-13

The following data relates to Shahnawaz Sports (Private) Limited for the year ended June 30, 2006 and 2007.

Particulars	2007	2006
	Rs.	Rs.
Inventory	230,000	185,000
Prepaid expenses	14,000	16,000
Trade debtors	52,000	30,000
Cash	15,000	38,000
Accounts payable	39,000	44,000
Income tax payable	5,000	4,000
Sales	500,000	
Cost of sales	310,000	
Operating expenses	80,000	
Interest expenses	21,000	
Taxation	30,000	
Depreciation - included in operating expenses	6,000	
-Included in cost of goods sold	6,000	
Profit before tax	89,000	

Required:

What will be the net cash flow from operating activities is as under: -

A. Direct method

B. Indirect method

PRACTICE SOLUTIONS

Answer-1
Cash flow indirect method

			Rs.
Cash flow from Operating Activities			
Profit for the year			7,250
Adjustments for:			
Depreciation		6,550	
Interest expense		800	
			7,350
Operating cash flow before working capital changes			14,600
Adjustment for working capital changes			
(Increase)/decrease in current assets			
(Increase)/decrease in inventory		(1,000)	
(Increase)/decrease in debtors [(11,000-8,00) – (8,000-400)]		(2,600)	
(Increase)/decrease in pre payments		400	
Increase/(Decrease) in current liabilities			
Increase/(decrease) in creditors		(1,000)	
Increase/(decrease) in accrued expenses		700	
Working capital changes			(3,500)
Cash generated from operations			11,100
Less: Interest paid	(W-5)		(1,200)
Net Cash from operating activities	A		9,900
Cash flow from Investing Activities			
Purchases of fixed assets	(W-3)	(15,000)	
Purchases of investment	(W-6)	(2,000)	
Net cash from investing activities	B		(17,000)
Cash flow from Financing Activities			
New capital from owner	(W-2)	10,800	
Loan raised	(W-7)	1,000	
Net cash from financing activities	C		11,800
Net increase in cash and cash equivalents	(A+B+C)		4,700
Add: cash and cash equivalents at beginning of period	(W-1)		5,900
Cash and cash equivalents at end of period	(W-1)		10,600

WORKINGS

(W-1) Cash and cash equivalents

	2007	2006
Bank	3,000	700
Cash	600	1,200
Short term investment	10,000	5,000
Bank overdraft	(3,000)	(1,000)
	10,600	5,900

(W-2)

Capital account

Dr.			Cr.
		Op.	30,080
		Profit	7,250
cl.	48,130	Cash (New capital) (bal.)	10,800

(W-3)

Fixed asset at cost

Dr.			Cr.
Op.	35,000		
Cash (additions) (bal.)	15,000	cl.	50,000

(W-4)

Accumulated depreciation

Dr.			Cr.
		Op.	7,320
cl.	13,870	Depreciation	6,550

(W-5)

Interest expense

Dr.			Cr.
Cash (bal.)	1,200	Op.	800
cl.	400	P and L	800

(W-6)

Investment account

Dr.			Cr.
Op.	5,000		
Cash (new purchased) (bal.)	2,000	cl.	7,000

(W-7)

Loan account

Dr.			Cr.
		Op.	9,000
cl.	10,000	Cash (raised) (bal.)	1,000

Cash flow direct method

Cash flow from operating activities

		Rs.
Cash received from customers	(W-1)	47,000
Cash paid to suppliers	(W-2)	(16,000)
Cash paid for expenses	(W-3)	(19,900)
		11,100
Less:		
Interest paid		(1,200)
Net Cash from operating activities A		9,900

WORKINGS

(W-1)

Debtor

Dr.			Cr.
Op.	8,000	Cash (bal.)	47,000
Sale	50,000	cl.	11,000

(W-2)

Dr. **Creditor** Cr.

Cash (bal.)	16,000	Op.	8,000
cl.	7,000	Purchases	15,000

(W-3)

Dr. **Expenses** Cr.

Op. prepaid	2,000	Op. payable	3,300
Cash (bal.)	19,900	P and L (4,000+2,000+15,000)	21,000
Cl. Payable	4,000	Cl. Prepaid	1,600

(W-4)

Dr. **Interest expense** Cr.

Cash (bal.)	1,200	Op.	800
cl.	400	P and L	800

Answer-2

Cash flow indirect method

			Rs.
Cash flow from Operating Activities			
Profit for the year			159,650
Adjustments for:			
Depreciation		14,850	
Interest expense		7,500	
			22,350
Operating cash flow before working capital changes			182,000
Adjustment for working capital changes			
(Increase)/decrease in current assets			
(Increase)/decrease in inventory		(2,000)	
(Increase)/decrease in debtors	[(47,000-9,480)-(85,000-7,480)]	40,000	
(Increase)/decrease in pre payments		2,500	
Increase/(Decrease) in current liabilities			
Increase/(decrease) in creditors		25,000	
Increase/(decrease) in accrued expenses		2,700	
Working capital changes			68,200
Cash generated from operations			250,200
Less:			
Interest paid	(W-5)		(4,000)
Drawings	(W-2)		(77,500)
Net Cash from operating activities	A		168,700
Cash flow from Investing Activities			
Purchases of fixed assets	(W-3)	(175,000)	
Purchases of investment	(W-6)	(30,000)	
Net cash from investing activities	B		(205,000)

Cash flow from Financing Activities

New capital from owner	(W-2)	-
Loan raised	(W-7)	15,000
Net cash from financing activities	C	15,000
Net increase in cash and cash equivalents	(A+B+C)	(21,300)
Add: cash and cash equivalents at beginning of period	(W-1)	(4,500)
Cash and cash equivalents at end of period	(W-1)	(25,800)

WORKINGS

(W-1) Cash and cash equivalents

	2009	2008
Bank	5,800	4,500
Cash	3,400	6,000
Short term investment	15,000	10,000
Bank overdraft	(50,000)	(25,000)
	(25,800)	(4,500)

(W-2)

Dr. **Capital account** Cr.

Cash (Drawings) (bal.)	77,500	Op.	618,940
cl.	701,090	Profit	159,650

(W-3)

Dr. **Fixed asset at cost** Cr.

Op.	650,000		
Cash (additions) (bal.)	175,000	cl.	825,000

(W-4)

Dr. **Accumulated depreciation** Cr.

		Op.	25,480
cl.	40,330	Depreciation (bal.)	14,850

(W-5)

Dr. **Interest expense** Cr.

Cash (bal.)	4,000	Op.	11,500
cl.	15,000	P and L	7,500

(W-6)

Dr. **Investment account** Cr.

Op.	120,000		
Cash (new purchased) (bal.)	30,000	cl.	150,000

(W-7)

Dr. **Loan account** Cr.

		Op.	85,000
cl.	100,000	Cash (raised) (bal.)	15,000

Cash flow direct method

Cash flow from operating activities

		Rs.
Cash received from customers	(W-1)	438,000
Cash paid to suppliers	(W-2)	(105,000)
Cash paid for expenses	(W-3)	(82,800)
		250,200

Less:		
Interest paid	(W-4)	(4,000)
Drawings	(W-5)	(77,500)
		(81,500)
Net Cash from operating activities A		168,700

WORKINGS

(W-1)

Debtor

Dr.			Cr.
Op.	85,000	Cash (bal.)	438,000
Sale	400,000	cl.	47,000

(W-2)

Creditor

Dr.			Cr.
Cash (bal.)	105,000	Op.	125,000
cl.	150,000	Purchases	130,000

(W-3)

Expenses

Dr.			Cr.
Op. prepaid	4,500	Op. payable	6,600
Cash (bal.)	82,800	P and L (25,000+35,000+28,000)	88,000
cl. Payable	9,300	cl. prepaid	2,000

(W-4)

Interest expense

Dr.			Cr.
Cash (bal.)	4,000	Op.	11,500
cl.	15,000	P and L	7,500

(W-5)

Capital account

Dr.			Cr.
Cash (Drawings) (bal.)	77,500	Op.	618,940
cl.	701,950	Profit	159,650

Answer-3

Cash flow indirect method

		Rs.
Cash flow from Operating Activities		
Profit for the year		445,075
Adjustments for:		
Depreciation	35,425	
Gain on sale fixed	(10,000)	
Interest expense	2,500	
		27,925
Operating cash flow before working capital changes		473,000
Adjustment for working capital changes		
(Increase)/decrease in current assets		
(Increase)/decrease in inventory	(45,000)	
(Increase)/decrease in debtors-net [(105,000-18,850)-(125,000-12,850)]	26,000	
(Increase)/decrease in pre payments	3,800	
Increase/(Decrease) in current liabilities		
Increase/(decrease) in creditors	65,000	
Increase/(decrease) in accrued expenses	6,400	
Working capital changes		56,200
Cash generated from operations		529,200

Less:		
Interest paid	(W-6)	(1,400)
Drawings	(W-2)	(261,800)
Net Cash from operating activities	A	266,000
Cash flow from Investing Activities		
Purchases of fixed assets	(W-3)	(404,500)
Sales proceeds from disposal of fixed assets	(W-5)	100,000
Purchases of investment	(W-7)	(65,000)
Net cash from investing activities	B	(369,500)
Cash flow from Financing Activities		
New capital from owner	(W-2)	-
Loan raised	(W-8)	125,000
Net cash from financing activities	C	125,000
Net increase in cash and cash equivalents	(A+B+C)	21,500
Add: cash and cash equivalents at beginning of period	(W-1)	2,000
Cash and cash equivalents at end of period	(W-1)	23,500

WORKINGS

(W-1) Cash and cash equivalents

	2009	2008
Bank	15,000	12,000
Cash	4,500	5,000
Short term investment	10,000	20,000
Bank overdraft	(6,000)	(35,000)
	23,500	2,000

(W-2)

Capital account

Dr.			Cr.
Cash (Drawings) (bal.)	261,800	Op.	1,931,725
cl.	2,115,000	Profit	445,075

(W-3)

Fixed asset at cost

Dr.			Cr.
Op.	1,785,000	Disposal	100,000
Cash (additional) (bal.)	404,500	cl.	2,089,500

(W-4)

Accumulated depreciation

Dr.			Cr.
Disposal a/c (bal.)	10,000	Op.	125,425
cl.	150,850	Depreciation	35,425

(W-5)

Disposal a/c-vehicle

Dr.			Cr.
Fixed assets	100,000	Accumulated depreciation	10,000
Gain on sale of vehicle	10,000	Cash	100,000

(W-6)

Dr.	Interest expense		Cr.
Cash (bal.)	1,400	Op.	6,400
cl.	7,500	P and L	2,500

(W-7)

Dr.	Investment account		Cr.
Op.	250,000		
Cash (new purchased) (bal.)	65,000	cl.	315,000

(W-8)

Dr.	Loan account		Cr.
		Op.	250,000
cl.	375,000	Cash (raised) (bal.)	125,000

Cash flow direct method

Cash flow from operating activities

		Rs.
Cash received from customers	(W-1)	1,220,000
Cash paid to suppliers	(W-2)	(535,000)
Cash paid for expenses	(W-3)	(155,800)
		529,200
Less:		
Interest paid	(W-4)	(1,400)
Drawings	(W-5)	(261,800)
		(263,200)
Net Cash from operating activities A		266,000

WORKINGS

(W-1)

Dr.	Debtor		Cr.
op.	125,000	Cash (bal.)	1,220,000
Sale	1,200,000	cl.	105,000

(W-2)

Dr.	Creditor		Cr.
Cash (bal.)	535,000	op.	85,000
cl.	150,000	Purchases	600,000

(W-3)

Dr.	Expenses		Cr.
op. prepaid	6,500	op. payable	2,100
Cash (bal.)	155,800	P and L (125,000+27,000+14,000)	166,000
cl. Payable	8,500	cl. prepaid	2,700

(W-4)

Dr.	Interest expense		Cr.
Cash (bal.)	1,400	op.	6,400
cl.	7,500	P and L	2,500

(W-5)

Dr.	Capital account		Cr.
Drawings	261,800	op.	1,931,725
cl.	2,115,000	Profit	445,075

Answer-4

Cash flow indirect method

		Rs.
Cash flow from Operating Activities		
Profit for the year		339,620
Adjustments for:		
Depreciation		59,840
Gain on sale of investments	(50,000-70,000)	(20,000)
Loss on sale of fixed assets		80,000
Interest expense		3,540
		123,380
Operating cash flow before working capital changes		463,000
Adjustment for working capital changes		
(Increase)/decrease in current assets		
(Increase)/decrease in inventory		(30,000)
(Increase)/decrease in debtors-net	[(135,900-28,850)-(225,000-116,850)]	101,100
(Increase)/decrease in pre payments		1,100
Increase/(Decrease) in current liabilities		
Increase/(decrease) in creditors		120,000
Increase/(decrease) in accrued expenses		2,000
Working capital changes		194,200
Cash generated from operations		657,200
Less:		
Interest paid	(W-6)	(2,540)
Drawings	(W-2)	(553,985)
Net Cash from operating activities	A	100,675
Cash flow from Investing Activities		
Purchases of fixed assets	(W-3)	(429,655)
Sale proceeds from disposal of fixed assets	(W-5)	120,000
Proceeds from sale of investments	(W-9)	70,000
Purchases of investment	(W-7)	(59,600)
Net cash from Investing activities	B	(299,255)
Cash flow from Financing Activities		
New capital from owner	(W-2)	73,580
Loan raised	(W-8)	100,000
Net cash from financing activities	C	173,580
Net increase in cash and cash equivalents	(A+B+C)	(25,000)
Add: cash and cash equivalents at beginning of period	(W-1)	14,500
Cash and cash equivalents at end of period	(W-1)	(10,500)

WORKINGS

(W-1) Cash and cash equivalents

	2009	2008
Bank	23,000	17,000
Cash	9,500	7,500
Short term investment	12,000	25,000
Bank overdraft	(55,000)	(35,000)
	(10,500)	14,500

(W-2)

Capital account

Dr.			Cr.
Drawings	553,985	Op.	1,251,6[illegible]
cl.	1,110,830	Profit	339,6[illegible]
		New capital (bal.)	73,5[illegible]

(W-3)

Fixed asset at cost

Dr.			Cr.
Op.	1,540,345	Deletion	225,0[illegible]
Cash (additions) (bal.)	429,655	cl.	[illegible]

(W-4)

Accumulated depreciation

Dr.			Cr.
Disposal a/c	25,000	Op.	[illegible]
cl.	460,520	Depreciation	[illegible]

(W-5)

Disposal a/c-plant & machinery

Dr.			Cr.
Fixed assets	225,000	Accumulated depreciation	25,000
		Cash	120,000
		Loss on sale of fixed assets (bal.)	80,000

(W-6)

Interest expense

Dr.			Cr.
Cash (bal.)	2,5[illegible]	Op.	2,5[illegible]
cl.	3,500	P and L	3,5[illegible]

(W-7)

Investment account

Dr.			Cr.
Op.	315,400	Sale of investment	[illegible]
Cash (new purchased) (bal.)	[illegible]	cl.	325,000

(W-8)

Loan account

Dr.			Cr.
		Op.	[illegible]
cl.	450,000	Cash raised (bal.)	100,000

Cash flow direct method

Cash flow from operating activities

		Rs.
Cash received from customers	(W-1)	1,939,1[illegible]
Cash paid to suppliers	(W-2)	(735,000)
Cash paid for expenses	(W-3)	(546,900)
		657,200
Less:		
Interest paid	(W-4)	(2,540)
Drawings		(553,985)
		(556,525)
Net Cash from operating activities A		100,675

WORKINGS

(W-1)

Dr.	Debtor		Cr.
op.	225,000	Cash (bal.)	1,939,100
Sale	1,850,000	cl.	135,900

(W-2)

Dr.	Creditor		Cr.
Cash (bal.)	735,000	op.	225,000
cl.	345,000	Purchases	855,000

(W-3)

Dr.	Expenses		Cr.
op. prepaid	8,500	op. payable	7,100
Cash (bal.)	546,900	P and L (350,000+125,000+75,000)	550,000
cl. Payable	9,100	cl. prepaid	7,400

(W-4)

Dr.	Interest expense		Cr.
Cash (bal.)	2,540	op.	2,500
cl.	3,500	P and L	3,540

Answer-5

Cash flow statement using indirect method

Cash flow from Operating Activities		**Rs.**
Profit for the year		4,655
Adjustments for:		
Depreciation		4,745
Net loss on sale of fixed assets		1,000
Loss on sale of investments		800
Interest expense		600
		7,145
Operating cash flow before working capital changes		11,800
Adjustment for working capital changes		
(Increase)/decrease in current assets		
(Increase)/decrease in inventory		2,000
(Increase)/decrease in debtors [(9,000-800) - (6,000-600)]		(2,800)
(Increase)/decrease in prepayments		200
Increase/(Decrease) in current liabilities		
Increase/(decrease) in creditors		(1,000)
Increase/(decrease) in accrued expenses		700
Working capital changes		(900)
Cash generated from operations		10,900
Less:		
Interest paid	(W-9)	(800)
Drawings made		(10,000)
Net Cash from operating activities	A	100
Cash flow from Investing Activities		
Purchase of fixed assets	(W-3)	(18,000)
Sale proceeds from disposal of fixed assets [(W-5) 2,555 + (W-6) 1,650 + (W - 7) 50]		4,255
Purchase of investment	(W-10)	(3,000)
Sale proceeds of investment	(W-10.1)	200
Net cash from investing activities	B	(16,545)

Cash flow from Financing Activities

New capital from owner	(W-2)	16,545
Loan raised		3,000
Loan repaid	(W-11)	(2,000)
Net cash from financing activities	C	17,545
Net increase in cash and cash equivalents	(A+B+C)	1,100
Add: cash and cash equivalents at beginning of period	(W-1)	1,400
Cash and cash equivalents at end of period	(W-1)	2,500

WORKINGS

(W-1) Cash and cash equivalents

	2007	2006
Bank	3,000	700
Cash	300	600
Short term investment	200	100
Bank overdraft	(1,000)	-
	2,500	1,400

(W-2)

Capital account

Dr.			Cr.
Drawing	10,000	op.	18,100
cl.	29,300	Profit	4,655
		Cash (New capital) (bal.)	16,545

(W-3)

Fixed asset at cost

Dr.			Cr.
op.	20,000	Disposal Asset 1	3,000
Cash (additions) (bal.)	18,000	Disposal Asset 2	4,000
		Disposal Asset 3	1,000
		cl.	30,000

(W-4)

Accumulated depreciation

Dr.			Cr.
Disposal Asset 1 (W-8)	945	op.	4,000
Disposal Asset 2 (W-8)	900	Depreciation	4,745
Disposal Asset 3 (W-8)	900		
cl.	6,000		

(W-5)

Asset 1 Disposal Account

Dr.			Cr.
Cost	3,000	Accumulated depreciation (W-8)	945
P and L	500	Cash (bal.)	2,555

(W-6)

Asset 2 Disposal Account

Dr.			Cr.
Cost	4,000	Accumulated depreciation (W-8)	900
		Cash (bal.)	1,650
		P and L	1,450

(W-7)

Asset 3 Disposal Account

Dr.			Cr.
Cost	1,000	Accumulated depreciation (W-8)	900
		Cash (bal.)	50
		P and L	50

(W-8)

Calculation of accumulated depreciation of assets disposed off

	Asset 1	Asset 2	Asset 3
Cost	3,000	4,000	1,000
Residual value	(300)	(400)	(100)
Depreciable amount	2,700	3,600	900
Depreciation per year	270	360	90
Life till date of disposal (in years)	3.5Y	2.5Y	10Y
	945	900	900

(W-9)

Dr.	Interest expense		Cr.
Cash (bal.)	800	op.	400
cl.	200	P and L	600

(W-10)

Dr.	Investment account		Cr.
op.	4,000	Disposed (4000/4)	1,000
Cash (new purchased) (bal.)	3,000	cl.	6,000

(W-10.1) Entry for disposal of investment

	Dr.	Cr.
Cash (bal.)	200	
P and L	800	
Investment		1,000

(W-11)

Dr.	Loan account		Cr.
Cash (repaid) (bal.)	2,000	op.	4,000
cl.	5,000	Cash (raised)	3,000

Cash flow statement using direct method

		Rs.
Cash received from customers	(W-1)	37,000
Cash paid to suppliers	(W-2)	(14,000)
Cash paid for expenses	(W-3)	(12,100)
		900
Less:		
Interest paid	(W-4)	(800)
Drawings made		(10,000)
		(10,800)
Net Cash from operating activities A		100

WORKINGS

(W-1)

Dr.	Debtor		Cr.
op.	6,000	Cash (bal.)	37,000
Sale	40,000	cl.	9,000

(W-2)

Dr.	Creditor		Cr.
Cash (bal.)	14,000	op.	6,000
cl.	5,000	Purchases	13,000

(W-3)

Dr.	Expenses		Cr.
op. prepaid	1,000	op. payable	3,300
Cash (bal.)	12,100	P and L (2,000 + 3,000 + 8,000)	13,000
cl. Payable	4,000	cl. prepaid	800

(W-4)

Interest expense

Dr.			Cr.
Cash (bal.)	800	op.	400
cl.	200	P and L	600

Answer-6

Mr. Pure Water
Cash flow statement
For the year ended June 30, 2002

		Rs.
Cash flow from Operating Activities		
Profit before tax		168
Adjustments for:		
Depreciation	(W-6)	99
(Gain)/loss on sale of furniture	(W-5)	10
(Gain)/loss on sale of investments	(W-7)	(6)
Interest expense		79
Interest income		(26)
		156
Operating cash flow before working capital changes		324
Adjustment for working capital changes		
(Increase)/decrease in current assets		
(Increase)/decrease in inventory		(51)
(Increase)/decrease in debtors (net)		(79)
Increase/(Decrease) in current liabilities		
Increase/(decrease) in creditors		39
Working capital changes		(91)
Cash generated from operations		233
Less:		
Interest paid		(79)
Drawings made		(105)
Net cash from Operating activities	A	49
Cash flow from Investing Activities		
Purchase of fixed assets	(W-4)	(220)
Intangible purchased (additions)	(263 - 210)	(53)
Sale proceeds from disposal of fixed assets		32
Sale proceeds of investment		32
Interest received		26
Net Cash from investing activities	B	(183)
Cash flow from Financing Activities		
New Capital form owner	(W-2)	62
Loan raised	(W-8)	126
Loan repaired		-
Net cash from financing activities	C	188
Net increase in cash and cash equivalents	(A+B+C)	54
Add: cash and cash equivalents at beginning of period	(W-1)	1
Cash and cash equivalents at end of period	(W-1)	55

WORKINGS

(W-1) Cash and cash equivalents

	2002	2001
Cash	2	1
Short term investment	53	-
	55	1

(W-2)

Capital account

Dr.			Cr.
Drawing	105	Op.	517
		Profit	168
cl.	642	New capital (bal.)	62

(W-3 deleted)

(W-4)

Asset account at cost

Dr.			Cr.
b/d	625	Disposal	89
Additions (bal.)	220	cl.	756

(W-5)

Disposal Account

Dr.			Cr.
Cost	89	Accumulated depreciation (89-42)	47
		Cash	32
		P and L (bal.)	10

(W-6)

Accumulated depreciation

Dr.			Cr.
Asset disposal	47	Op.	305
cl.	357	Depreciation (bal.)	99

(W-7)

Entry for disposal of investment

	Dr.	Cr.
Cash	32	
P and L		6
Investment		26
(Entry for disposal of investment)		

(W-8)

Long term loan

Dr.			Cr.
		Op.	53
cl.	179	Cash (bal.)	126

Answer-7

Mr. Azam
Cash flow statement
For the year ended June 30, 2006

Cash flow from Operating Activities		Rs. in '000'
Profit for the year		3,000
Adjustments for:		
Depreciation on furniture, machine and computer		750
Depreciation on vehicle	(W-5)	646
Interest expense	(W-6)	520
Gain on sale of machinery	(W-7)	(100)
		1,816
Operating cash flow before working capital changes		4,816

Adjustment for working capital changes		
Debtors		(50)
Stocks		(290)
Creditors and other liabilities		830
Working capital changes		490
Drawings	(W-3)	(2,700)
Interest paid		(500)
Net Cash from operating activities	A	2,106
Cash flow from Investing Activities		
Purchase of furniture other than through exchange	(W-4)	(800)
Exchange of assets	(W-7)	(350)
Purchase of vehicle	(W-5)	(846)
Net cash from investing activities	B	(1,996)
Cash flow from Financing Activities		
New capital from owner		.
Loan raised/ (repaid)		.
Net cash from financing activities	C	.
Net increase in cash and cash equivalents (A+B+C)		110
Add: cash and cash equivalents at beginning of period		400
Cash and cash equivalents at end of period		510

WORKINGS

(W-1) Cash and cash equivalents

	2006	2005
Short term investments	750	500
Cash and bank	160	100
Bank overdraft	(400)	(200)
Cash	510	400

(W-2) Deleted

(W-3)

Capital account

Dr.			Cr.
Drawings (bal.)	2,700	Op.	11,100
cl.	11,400	Profit	3,000
		New capital	.

(W-4)

Furniture, machine and computer

Dr.			Cr.
b/d	10,000	Depreciation	750
Additions (bal.)	800	Disposal – Book value	500
Disposal (exchange)	950	cl.	10,500

(W-5)

Vehicle

Dr.			Cr.
b/d	1,000	Depreciation (1,200/65x35)	646
Cash (additions) (bal.)	846	cl.	1,200

(W-6)

Dr.	Interest expense		Cr.
Cash	500	Op.	-
		Profit and loss (bal.)	520
cl.	20		

(W-7) **Entry for disposal of machine**

	Dr.	Cr.
Machine	950,000	
P and L (bal.)		100,000
Machine BV		500,000
Cash		350,000

Answer-8

Cash flow indirect method

		Rs.
Cash flow from Operating Activities		
Profit		300
Adjustments for:		
Depreciation		500
Interest expense		100
Operating cash flow before working capital changes		900
Adjustment for working capital changes		
(Increase)/decrease in current assets		
(Increase)/decrease in inventories		100
(Increase)/decrease in trade debtors		50
Increase/(Decrease) in current liabilities		
Increase/(decrease) in trade creditors		25
Increase/(decrease) in accruals		(25)
Working capital changes		150
Cash generated from operations		1,050
Less:		
Interest paid	(W-2)	(100)
Dividend paid		(50)
Net Cash from operating activities	**A**	900
Cash flow from Investing Activities		
Purchase of fixed assets	(W-3)	(700)
Sale proceeds from disposal of fixed assets		-
Net cash from investing activities	**B**	(700)
Cash flow from Financing Activities		
Proceeds from issue of share capital		-
Debenture loan repaid		(100)
Net cash from financial activities	**C**	(100)
Net increase in cash and cash equivalents	**(A+B+C)**	100
Add: cash and cash equivalents at beginning of period	(W-1)	100
Cash and cash equivalents at end of period	(W-1)	200

WORKINGS

(W-1) Cash and cash equivalents

	20X4	20X3
Cash	200	100
	200	100

(W-2)

Dr.	Interest expense		Cr.
Cash (bal.)	100	op.	-
cl.	-	P and L	100

(W-3)

Dr.	Fixed asset at cost		Cr.
op.	3,800	Disposal	-
Cash (additions) (bal.)	700	cl.	4,500

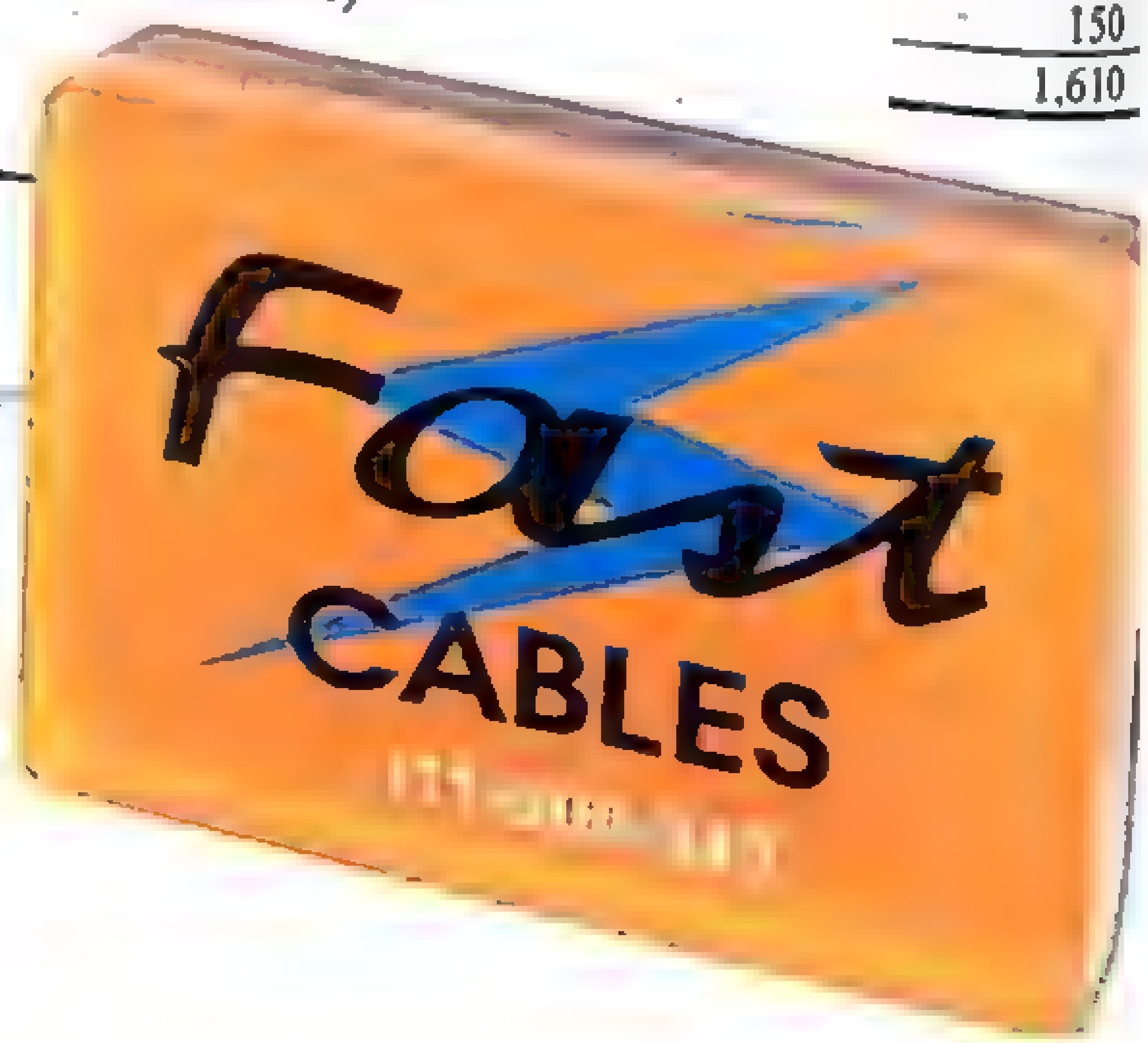
(W-4)

Dr.	Accumulated Depreciation		Cr.
		op.	1,800
cl.	2,300	Depreciation (bal.)	500

Answer-9

Cash flow indirect method

Cash flow from Operating Activities		Rs.
Profit before tax		1,150
Adjustments for:		
Depreciation		600
Interest expense		150
Operating cash flow before working capital changes		1,900
Adjustment for working capital changes		
(Increase)/decrease in current assets		
(Increase)/decrease in inventories		(50)
(Increase)/decrease in trade debtors		50
Increase/(Decrease) in current liabilities		
Increase/(decrease) in trade payables		10
Working capital changes		10
Cash generated from operations		1,910
Less:		
Interest paid	(W-2)	(150)
Dividend paid		(150)
Income tax paid		(150)
Net Cash from operating activities	A	1,460
Cash flow from Investing Activities		
Purchase of fixed assets	(W-3)	-
Sale proceeds from disposal of fixed assets		-
Net cash from investing activities	B	-
Cash flow from Financing Activities		
Proceeds from issue of share capital		-
Net cash from financial activities	C	-
Net increase in cash and cash equivalents	(A+B+C)	1,460
Add: cash and cash equivalents at beginning of period	(W-1)	150
Cash and cash equivalents at end of period	(W-1)	1,610



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WORKINGS

(W-1) Cash and cash equivalents

	20X4	20X3
Cash	1,610	150
	1,610	150

(W-2)

Dr.	Interest expense		Cr.
Cash (bal.)	150	op.	-
cl.	-	P and L	150

(W-3)

Dr.	Income tax expense		Cr.
Cash (bal.)	150	op.	150
cl.	200	P and L	200

(W-4)

Dr.	Non-current at cost		Cr.
op.	6,000	Disposal	-
Cash (additions) (bal.)	-	cl.	6,000

(W-5)

Dr.	Accumulated Depreciation		Cr.
		op.	2,400
cl.	3,000	Depreciation (bal.)	600

Answer-10

Cash flow indirect method

Cash flow from Operating Activities		Rs.
Profit before tax	(W-2)	56
Adjustments for:		
Depreciation	(W-7)	27
(Gain) on sale of non-current assets	(W-8)	(16)
Interest expense		18
Operating cash flow before working capital changes		85
Adjustment for working capital changes		
(Increase)/decrease in current assets		
(Increase)/decrease in inventories		(22)
(Increase)/decrease in trade receivables		26
(Increase)/decrease in prepayments	(W-10) (14 - 33)	(19)
Increase/(Decrease) in current liabilities		
Increase/(decrease) in trade payables		(31)
Increase/(decrease) in accrued expenses	(W-9)	(3)
Working capital changes		(49)
Cash generated from operations		36
Less:		
Interest paid	(W-3)	(23)
Dividend paid		(21)
Income tax paid	(W-4)	(38)
Net Cash from operating activities	A	(46)
Cash flow from Investing Activities		
Purchase of fixed assets	(W-6)	(212)
Sale proceeds from disposal of fixed assets		31
Net cash from investing activities	B	(181)

Cash flow from Financing Activities		
Proceeds from issue of share capital	(1,015 - 970) + (60 - 55)	50
Long term loan raised	(W-5)	180
Net cash from financial activities	C	230
Net increase in cash and cash equivalents	(A+B+C)	3
Add: cash and cash equivalents at beginning of period	(W-1)	35
Cash and cash equivalents at end of period	(W-1)	38

WORKINGS

(W-1) Cash and cash equivalents

	2007	2006
Bank	38	35
	38	35

(W-2) Profit before tax

As per question	44
Add: Prepaid expense wrongly debited to admin costs	12
	56

(W-3) Interest expense

Dr.			Cr.
Cash (bal.)	23	op.	17
cl.	12	P and L	18

B Income tax expense

Dr.			Cr.
Cash (bal.)	38	op.	56
cl.	35	P and L	17

(W-5) Loan account

Dr.			Cr.
cl.	690	op.	510
		Cash (raised) (bal.)	180

(W-6) Non-current assets at cost

Dr.			Cr.
op.	2,470	Disposal	92
Cash (additions) (bal.)	212	cl.	2,590

(W-7) Accumulated Depreciation

Dr.			Cr.
Disposal	77	op.	500
cl.	450	Depreciation (bal.)	27

(W-8) Disposal Account

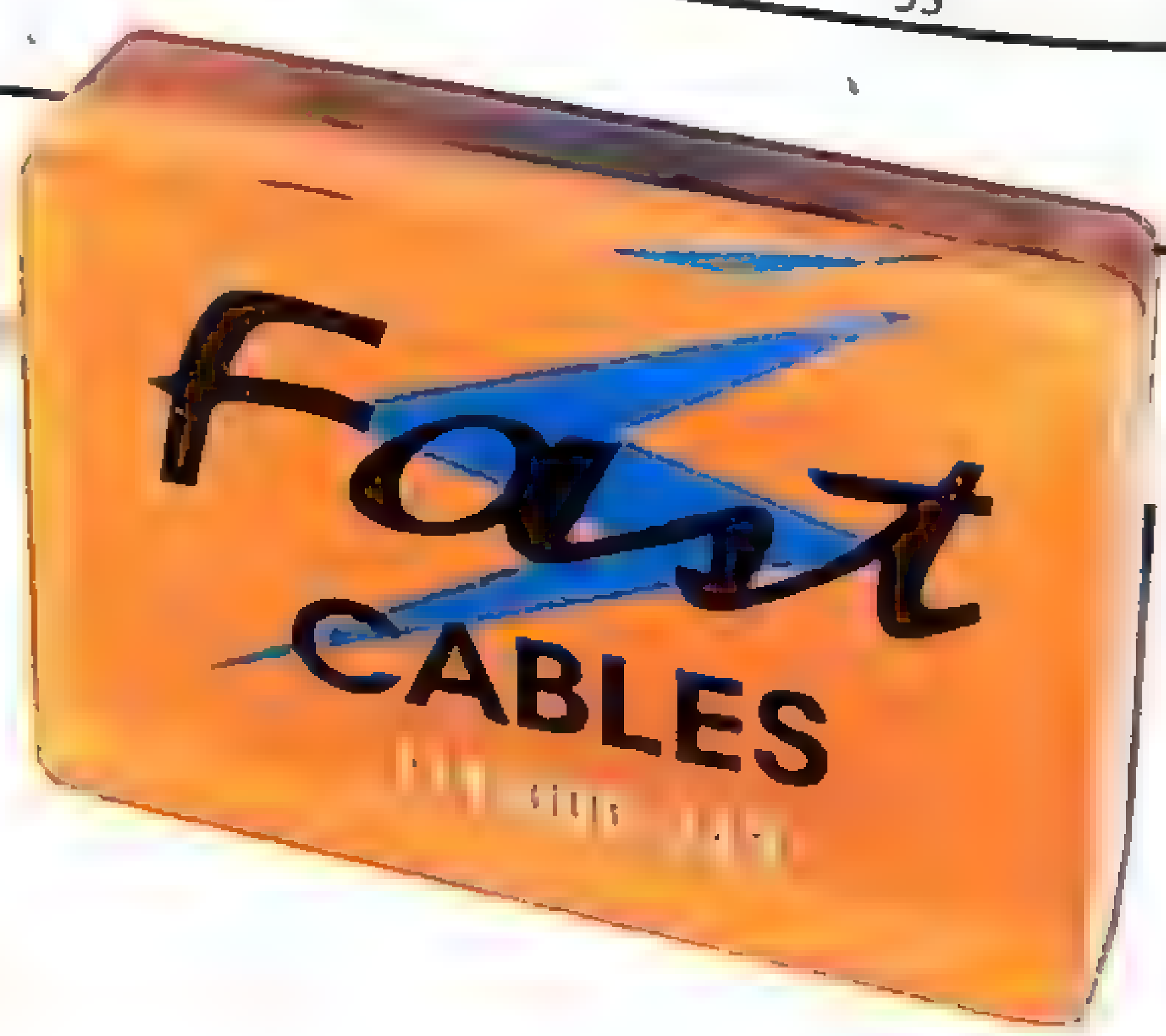
Dr.			Cr.
Cost	92	Accumulated depreciation	77
P/L (bal.)	16	Cash	31

(W-9) Accruals

	2012	2011
Accruals	23	31
Less: Interest accrued	(12)	(17)
	11	14

(W-10) Prepayments

	2012	2011
Prepayment	21	14
Add: Prepayment not recorded	12	-
	33	14



Answer-11

Cash flow indirect method

Cash flow from Operating Activities

		Rs.
Profit before tax	(49,190 + 23,000)	72,190
Adjustments for:		
Depreciation		30,000
(Gain)/ loss on sale of fixed assets	(W-6)	(15,000)
Interest expense		18,500
Operating cash flow before working capital changes		105,690
Adjustment for working capital changes		
(Increase)/decrease in current assets		
(Increase)/decrease in inventories		24,360
(Increase)/decrease in trade receivables		(50,200)
(Increase)/decrease in prepayments		(15,500)
Increase/(Decrease) in current liabilities		
Increase/(decrease) in trade payables		12,080
Increase/(decrease) in accrued expenses		6,920
Working capital changes		(22,340)
Cash generated from operations		83,350
Less:		
Interest paid	(W-3)	(18,500)
Dividend paid		(27,000)
Income tax paid	(W-4)	(8,500)
Net Cash from operating activities	A	29,350
Cash flow from Investing Activities		
Purchase of fixed assets	(W-5)	(216,750)
Sale proceeds from disposal of fixed assets		50,000
Net cash from investing activities	B	(166,750)
Cash flow from Financing Activities		
Proceeds from issue of share capital	(220,000 - 160,000) + (15,000 - 0)	75,000
Long term loan raised	(W-2)	48,500
Net cash from financial activities	C	123,500
Net increase in cash and cash equivalents	(A+B+C)	(13,900)
Add: cash and cash equivalents at beginning of period	(W-1)	(42,600)
Cash and cash equivalents at end of period	(W-1)	(56,500)

WORKINGS

(W-1) Cash and cash equivalents

	2012	2011
Bank overdraft	(56,500)	(42,600)
	(56,500)	(42,600)

(W-2) **Loan account**

Dr.			Cr.
cl.	135,000	op.	86,500
		Cash (raised) (bal.)	48,500

(W-3) **Interest expense**

Dr.			Cr.
Cash (bal.)	18,500	op.	-
cl.	-	P and L	18,500

(W-4)

Dr.	Income tax expense		Cr.
Cash (bal.)	8,500	op.	48,250
cl.	62,750	P and L	23,000

(W-5)

Dr.	Plant and machinery at book value		Cr.
op.	180,800	Depreciation	30,000
Cash (additions) (bal.)	216,750	Disposal - BV	35,000
		cl.	332,550

(W-6)

Dr.	Disposal account		Cr.
Non-current - BV	35,000		
P/L (bal.)	15,000	Cash	50,000

Answer-12

Junaid Janjua Ltd.
Cash flow Statement
for the year ended December 31, 2010

			Rs.
Cash flow from Operating Activities			
Profit for the year	(W-2)		950,000
Adjustments for:			
Depreciation expense		230,000	
(Gain)/loss on sale of land		(64,000)	
(Gain)/loss on sale of long term investments		(32,000)	
(Gain)/loss on sale of equipment		15,000	
			149,000
Operating cash flow before working capital changes			1,099,000
Adjustment for working capital changes			
(Increase)/decrease in current assets			
(Increase)/decrease in inventory	(200,000-424,000)	(224,000)	
(Increase)/decrease in trade receivables	(104,000-280,000)	(176,000)	
(Increase)/decrease in prepayments	(43,000-38,000)	5,000	
Increase/(Decrease) in current liabilities			
Increase/(decrease) in tradé payables	(158,000-263,000)	(105,000)	
Increase/(decrease) in expenses payables	(40,000-24,000)	16,000	
Working capital changes			(484,000)
Cash generated from operations			615,000
Less:			
Dividend paid			(1,432,000)
Net Cash from operating activities	A		(817,000)
Cash flow from Investing Activities			
Purchase of building	(W-5)	(500,000)	
Purchase of equipment	(W-7)	(155,000)	
Sale proceeds from disposal of land	(W-4)	754,000	
Sale proceeds from disposal of equipment	(W-9)	60,000	
Purchase of long term investment	(W-11)	(150,000)	
Sale proceeds of investment	(W-12)	132,000	
Net cash from investing activities	B		141,000

Cash flow from Financing Activities

Capital introduced	(2,482,000-1,518,000)	964,000
Loan repaid	(W-10)	(175,000)
Net cash from financing activities	C	789,000
Net increase in cash and cash equivalents (A+B+C)		113,000
Add: cash and cash equivalents at beginning of period	(W-1)	(548,000)
Cash and cash equivalents at end of period	(W-1)	(435,000)

WORKINGS

(W-1) Cash and cash equivalents

	2010	2009
Cash	145,000	32,000
Less: Short term loans	(580,000)	(580,000)
	(435,000)	(548,000)

(W-2)

Dr.	Retained earnings		Cr.
Dividend	1,432,000	b/d	1,884,000
c/d	1,402,000	Profit (bal.)	950,000

(W-3)

Dr.	Land at cost		Cr.
b/d	2,500,000	Land disposal (bal.)	690,000
		c/d	1,810,000

(W-4)

Dr.	Land Disposal Account		Cr.
Land cost (W-3)	690,000	Accumulated depreciation	-
P and L	64,000	Cash (bal.)	754,000

(W-5)

Dr.	Building at Cost		Cr.
b/d	2,300,000		
Additional (bal.)	500,000	c/d	2,800,000

(W-6)

Dr.	Accumulated depreciation-building		Cr.
		b/d	720,000
c/d	890,000	Depreciation (bal.)	170,000

(W-7)

Dr.	Equipment at cost		Cr.
b/d	1,150,000	Disposal (W-9)	105,000
Additional (bal.)	155,000	c/d	1,200,000

(W-8)

Dr.	Accumulated depreciation-equipment		Cr.
Disposals (bal.)	30,000	b/d	350,000
c/d	380,000	Depreciation	60,000

(W-9)

Dr.	Equipment Disposal Account		Cr.
Cost [(W-8) 30,000 + 75,000]	105,000	Accumulated depreciation	30,000
		P and L	15,000
		Cash (bal.)	60,000

(W-10)

Dr.	Long term loan		Cr.
Cash (bal.)	175,000	b/d	1,160,000
c/d	985,000		

(W-11)

Dr.	Investment		Cr.
b/d	170,000	Disposal	100,000
Cash (new purchased) (bal.)	150,000	c/d	220,000

(W-12) Entry for disposal of investment

	Dr.	Cr.
Cash (bal.)	132,000	
P and L		32,000
Investment		100,000
(Entry for disposal of investment)		

(B) Cash flow direct method

Cash flows from Operating Activities

		Rs.
Cash receipts from customers	(W-1)	9,104,000
Cash paid to suppliers	(W-2)	(6,528,000)
Cash paid for expenses	(W-4)	(1,961,000)
		615,000
Cash generated from operations		
Less:		
Dividend paid		(1,432,000)
Net Cash from operating activities		(817,000)

WORKINGS

(W-1)

Dr.	Trade receivables		Cr.
b/d	104,000	Cash (bal.)	9,104,000
Sales	9,280,000	c/d	280,000

(W-2)

Dr.	Trade Payables		Cr.
Cash (bal.)	6,528,000	b/d	263,000
c/d	158,000	Inventory (W-3)	6,423,000

(W-3)

Dr.	Inventory		Cr.
b/d	200,000	Cost of sales	6,199,000
Purchases (bal.)	6,423,000	c/d	424,000

(W-4)

Dr.	Expenses		Cr.
b/d (prepaid)	43,000	b/d (payable)	24,000
Cash (bal.)	1,961,000	P & L (634,000+ 1,348,000)	1,982,000
c/d	40,000	c/d	38,000

Answer-13

Cash flow direct method

Cash flow from Operating Activities

		Rs.
Cash receipts from customers	(W-1)	478,000
Cash paid to suppliers	(W-2)	(354,000)
Cash paid for expenses	(W-4)	(72,000)
Cash generated from operations		52,000
Less:		
Interest paid		(21,000)
Income tax paid	(W-3)	(29,000)
Net cash from operating activities		2,000

WORKINGS

(W-1)

Dr.		Debtor Account	Cr.
b/d	30,000	Cash (balancing)	478,000
Sales	500,000	c/d	52,000

(W-2)

Dr.		Trade Payables	Cr.
Cash (balancing)	354,000	b/d	44,000
c/d	39,000	Inventory (W-2.1)	349,000

(W-2.1)

Dr.		Inventory Account	Cr.
b/d	185,000	Cost of sales (310,000 – 6,000)	304,000
Purchases (balancing)	349,000	c/d	230,000

(W-3)

Dr.		Income tax expense	Cr.
Cash (bal.)	29,000	b/d	4,000
c/d	5,000	P and L	30,000

(W-4)

Dr.		Prepaid expense	Cr.
b/d	16,000	P and L (80,000 – 6,000)	74,000
Cash (balancing)	72,000	c/d	14,000

Cash flow indirect method

Cash flow from Operating Activities

			Rs.
Profit before tax			89,000
Adjustments for:			
Depreciation	(6,000 + 6,000)		12,000
Interest expense			21,000
			33,000
Operating cash flow before working capital changes			122,000
Adjustment for working capital changes			
(Increase)/decrease in current assets			
(Increase)/decrease in inventories			(45,000)
(Increase)/decrease in prepaid expenses			2,000
(Increase)/decrease in trade receivables			(22,000)
Increase/(Decrease) in current liabilities			
Increase/(decrease) in trade payables			(5,000)
Working capital changes			(70,000)
Cash generated from operations			52,000
Less:			
Interest paid (No opening closing payable so expense is equal to payment)			(21,000)
Income tax paid (as in previous part)		(W-1)	(29,000)
Net Cash from operating activities			2,000

ICAP PAST PAPER QUESTIONS

QUESTION-1

The balance sheets of Fazal Din as at December 31, 2005 and 2006 are as follows:

Particulars	2005	2006
	Rs.	Rs.
Cash in hand	200,000	300,000
Debtors - net	450,000	500,000
Stocks	400,000	650,000
Prepaid expenses	100,000	50,000
Fixed assets	1,150,000	1,650,000
Allowance for depreciation	(75,000)	(175,000)
Total	**2,225,000**	**2,975,000**

Particulars	2005	2006
Creditors	400,000	515,000
Accrued expenses	125,000	100,000
Bank overdraft	300,000	785,000
Capital	1,400,000	1,575,000
Total	**2,225,000**	**2,975,000**

Other information:

(i) Value of land included in fixed assets in 2005 amounted to Rs. 450,000.

(ii) Another plot of land was acquired during the year from a relative, at a cost of Rs. 350,000.

(iii) Mr. Fazal Din withdrew Rs. 100,000 out of profits made during 2006.

(iv) An equipment costing Rs. 100,000 and having a book value of Rs. 40,000 was sold during the year for Rs. 60,000.

Required:

A statement of cash flow for the year ended December 31, 2006.

(10)

{Spring 2007, Q #3}

QUESTION-2

The comparative balance sheets of Mr. Moosani show the following information:

Particulars	Amount in Rs.	
	December 31	
	2008	2007
Cash	5,200	41,400
Accounts receivable	31,700	21,500
Inventory	25,000	19,400
Investments	-	16,900
Furniture	80,000	64,000
Equipment	86,000	43,000
Total	**227,900**	**206,200**
Allowance for doubtful accounts	6,500	9,700
Accumulated depreciation on equipment	24,000	18,000
Accumulated depreciation on furniture	8,000	15,000
Trade creditors	10,800	6,500
Accrued expenses	4,300	10,800
Bills payable	6,500	8,600
Long-term loans	31,800	53,800
Capital	136,000	83,800
Total	**227,900**	**206,200**

Additional data related to 2008 is as follows:

(i) Equipment that had costed Rs. 23,000 and was 40% depreciated at the time of disposal was sold for Rs. 6,500.

(ii) Payments against long-term loans amounted to Rs. 22,000 of which Rs. 12,000 was paid by Mr. Moosani out of his personal account.

(iii) On January 1, 2008, the furniture was completely destroyed by a fire. Proceeds received from the insurance company amounted to Rs. 60,000.

(iv) Investments were sold at Rs. 7,500 above their cost.

(v) Mr. Moosani withdraws Rs. 15,000 each month for his personal use.

Required:

Prepare a cash flow statement for the year ended December 31, 2008. (12)

{Spring 2009, Q# 3}

QUESTION-3

The balance sheets of Sakhawat Hussain as at December 31, 2009 and 2008 are as follows:

	2009	2008
	Rs.	Rs.
Current assets	4750,000	2,850,000
Investments	2,600,000	2,500,000
Fixed assets	9,750,000	9,600,000
Accumulated depreciation	(2,950,000)	(2,450,000)
	14,150,000	**12,500,000**
Current liabilities	2,050,000	1,600,000
Capital	11,000,000	10,000,000
Profit and loss account	1,100,000	900,000
	14,150,000	**12,500,000**

Other information for the year 2009 is as follows:

(i) Investments costing Rs. 250,000 were sold for Rs. 320,000.

(ii) Fully depreciated furniture costing Rs. 200,000 was written-off.

(iii) Fixed assets costing Rs. 960,000 with a net book value of Rs. 160,000 were sold for Rs. 250,000.

(iv) Sakhawat Hussain withdrew Rs. 1,200,000 from the profits of 2008 and 2009.

(v) 20% of the opening and closing balances of current assets are represented by cash.

Required:

Prepare a statement of cash flow for the year ended December 31, 2009. (11)

{Spring 2010, Q# 7}

QUESTION-4

Mr. Junaid Janjua has provided you the following statements of financial position and statement of comprehensive income.

Balance Sheet as on December 31, 2010

	2010	2009
	Rs.	Rs.
Cash	145,000	32,000
Accounts receivable	280,000	104,000
Long-term investments	220,000	170,000
Inventory	424,000	200,000
Prepaid insurance	24,000	36,000
Office supplies	14,000	7,000
Land	1,810,000	2,500,000
Building	2,800,000	2,300,000
Accumulated depreciation	(890,000)	(720,000)
Equipment	1,200,000	1,150,000
Accumulated depreciation	(380,000)	(350,000)
Total assets	**5,647,000**	**5,429,000**

Accounts payable		
Wages payable	158,000	263,000
Short-term loans	40,000	24,000
Long-term loans	580,000	580,000
Capital	985,000	1,160,000
Total liabilities and equity	3,884,000	3,402,000
	5,647,000	5,429,000

Income Statement for the year ended December 31, 2010

	Rs.
Sales revenue	9,280,000
Cost of goods sold	(6,199,000)
Gross margin	**3,081,000**
Operating expenses	
Selling expenses	634,000
Administrative expenses	1,348,000
Depreciation expenses	230,000
	(2,212,000)
Income from operations	869,000
Other revenues/expenses	
Gain on sale of land	64,000
Gain on sale of long term investment	32,000
Loss on sale of equipment	(15,000)
	81,000
Net income	**950,000**

Notes:

(a) Part of the long term loan amounting to Rs. 100,000 was paid by Mr. Junaid from his personal account.

(b) Long term investments costing Rs. 100,000 were sold during the year.

(c) Depreciation charged during the year on equipment amounted to Rs. 60,000. Equipment having a book value of Rs. 75,000 was sold during the year.

(d) Drawings amounted to Rs. 568,000.

Required:

Prepare a cash flow statement for the year ended December 31, 2010. **(14)**

{Spring 2011, Q# 4}

QUESTION-5

The balance sheet of Amin Industries as at 31 August 2011 is as follows:

	2011	2010		2011	2010
	Rs.	Rs.		Rs.	Rs.
Capital	33,433,000	27,942,000	**Fixed assets** – book value	15,172,000	12,346,000
			Current assets		
Current liabilities			Investments	4,911,000	-
Short term finance	2,545,000	1,616,000	Stock-in-trade	12,178,000	14,950,000
Creditors	3,457,000	2,850,000	Trade debts – net of provision for bad debts	6,732,000	4,887,000
	6,002,000	4,466,000	Bank	442,000	225,000
				24,263,000	20,062,000
				39,435,000	32,408,000
	39,435,000	32,408,000			

The following information is also available:

	Rs.
Profit during the year ended 31 August 2011	3,161,000
Mr. Amin's withdrawals during the year	3,120,000
Accumulated depreciation on fixed assets – 31 August 2010	5,605,000
Accumulated depreciation on fixed assets – 31 August 2011	7,470,000
Provision for bad debts – 31 August 2010	385,000
Provision for bad debts – 31 August 2011	484,000
During the year fixed assets costing Rs. 1,500,000 with a book value of Rs. 867,000 were sold for Rs. 1,284,000.	

Required:

Prepare a cash flow statement for the year ended 31 August 2011. Show necessary workings. **(13)**

{Autumn 2011, Q# 2}

QUESTION-6

The following information has been gathered from the books of Rehân Brothers for the year ended June 30, 2007:

(i) A loss of Rs. 453,000 was sustained during the year.
(ii) Repairs to building amounting to Rs. 50,000 were erroneously debited to accumulated depreciation-building account.
(iii) Depreciation for the year amounted to Rs. 163,000.
(iv) Current assets (net of provisions) and current liabilities increased by Rs. 70,000 and Rs. 90,000 respectively.
(v) A plot of land for which Rs. 390,000 had been paid was sold for Rs. 600,000.
(vi) A lather machine costing Rs. 200,000 was sold for Rs. 50,000. It was bought six years back. Depreciation had been provided at the rate of 10% on straight-line basis assuming 20% scrap value.
(vii) A fully depreciated office equipment costing Rs. 5,600 was written off.
(viii) An old computer costing Rs. 30,000 and book value of Rs. 10,000 was traded-in for a new machine costing Rs. 65,000 on payment of Rs. 50,000.

Required:

Cash flow statement for the year ended June 30, 2007. **(09)**

{Autumn 2007, Q# 7}

QUESTION-7

A shopkeeper made a net profit of Rs. 256,800 for the year ended June 30, 2008 after charging depreciation of Rs. 17,500 and loss on disposal of furniture of Rs 6,800. The sale proceeds of the furniture were Rs. 12,000.

During the year, the net book value of fixed assets decreased by Rs 7,400; debtors increased by Rs. 11,700, stocks decreased by Rs. 21,600 and creditors increased by Rs. 8,900. A long-term loan of Rs. 75,000 was repaid during the year and the shopkeeper withdrew Rs. 120,000 for his own use.

Required:

Prepare the cash flow statement for the year ended June 30, 2008. **(07)**

{Autumn 2008, Q# 5}

QUESTION-8

A summary of revenues and expenses of AB Enterprise for the year ended 30 June 2013 is given below:

	Rs.
Sales	2,345,000
Cost of goods manufactured and sold	(1,624,000)
Gross profit	721,000
Selling, general and administrative expenses	(509,000)
Net income before income tax	212,000
Income tax	(90,000)
Net income	122,000

Net changes in working capital items for the year ended 30 June 2013 were as follows:

	Net changes	
	Dr.	Cr.
Cash	32,000	
Trade receivables (net)		74,000
Inventories	105,000	
Prepaid expenses (selling and general)		6,000
Accrued expenses	15,000	
Income tax payable	28,000	
Trade payables	90,000	

Depreciation for the year amounted to Rs. 68,000.

Required:

Prepare a cash flow statement for the year ended 30 June 2013. **(07)**

{Autumn 2013, Q#7}

QUESTION-9

Galaxy Brothers commenced their business on 1 January 2013 with cash of Rs. 50 million, a building valued at Rs. 25 million and a motor vehicle costing Rs. 1.4 million. Following is the summarised Trial Balance as of 31 December 2013:

Particulars	**Debit**	**Credit**
	Rs. in million	
Sales		136.00
Cost of sales (including depreciation expense of Rs. 9 million)	83.50	
Operating and selling expenses (including depreciation expense of Rs. 6.25 million)	37.30	
Miscellaneous income (net of loss of Rs. 0.35 on settlement of total loss claim)		0.50
Finance charges	2.50	
Taxation expense	6.00	
Cash and bank balances	5.00	
Bank overdraft		23.00
Accounts receivable	18.00	
Provision for doubtful debts		0.90
Closing inventory	10.00	
Accounts payable		14.00
Interest payable		1.20
Provision for taxation (net of payments)		1.00
Partners' capital (net of cash withdrawals)		73.95
12% Long term loan payable		25.00
Property, plant and equipment	128.25	
Accumulated depreciation		15.00
	290.55	290.55

Settlement of the insurance claim pertained to an accident of a new car costing Rs. 1.8 million and having a depreciation charge of Rs. 0.25 million for the period in use.

Required:

Prepare a statement of cash flow for the year ended 31 December 2013. **(13)**

{Spring 2014, Q#7}